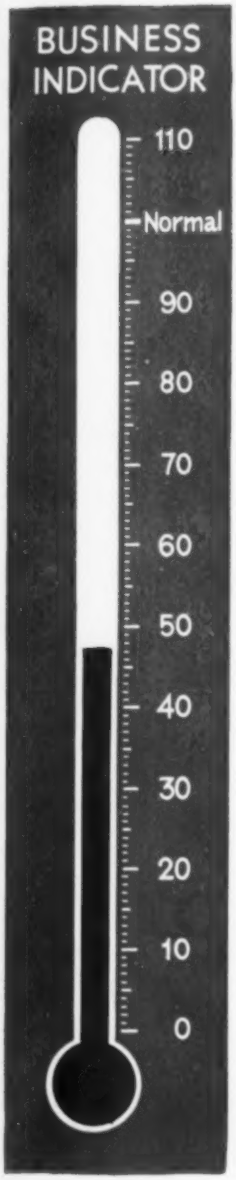
THE BUSINESS WEEK

APRIL 5, 1933



Business shows some faint signs of rallying from the staggering blow of the banking disaster. Indeed, the recovery in the money markets is impressive, with the figures all announcing that the crisis is over. Europe thinks so too; gold is returning from abroad, and the dollar is strong. . . . Electric power production has climbed back to pre-holiday levels, with marked gains in the industrial regions of the Central and Eastern states. . . . Public construction is strengthening slowly. Residential building holds its own, and may well exceed its February volume. Freight shipments also indicate some improvement since the dark weeks of early March. . . . February earnings, however, are not likely to make pleasant reading. . . . Currency outstanding is decreasing rapidly, and the new currency has been found unnecessary—a mixed sign, for while it spells a decrease in hoarding, it also means business doesn't need much money right now, even though many banks are closed. . . . Commodity prices are comparatively steady; declines in nonferrous metals contrast with the gains in grains. . . . February employment figures, just out, show the normal increase over January, but it is likely the trend was reversed by later developments. . . . All major tensions abroad have eased. Germany accepted the Hitler régime calmly until the backwash of hostile foreign propaganda unnerved even the Nazis. . . . Prestige of peace talk is reviving. . . . A new wave of "Russia" propaganda—pro and con—probably precedes developments of international significance.

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Beer

Business finds propagandists have put more than 3.2% of pure hope in the new beer, but there are real orders under the froth, at that.

THE Congressional spigot having gushed forth a 3.2% beer, it behooves the business man to blow away the emotional froth which covers the subject and examine the clear facts. Unimportant to him are the loud hosannas. Matters of real concern are: To what extent revenue from the new brew will ease his tax burdens; what new jobs it will furnish; what orders will result for brewery equipment, containers, etc.; methods to be employed for advertising, distribution, retailing.

There is certain to be a somewhat woozy morning after for those who have over-indulged in claims for this recalled drink. Estimates of its benefactions to business contain usually more than 3.2% of hopes and sentimentality. Stimulation there will be. But—

The nation's present brewing capacity is about 25 million barrels a year. Pre-war peak consumption was 66 million barrels. Thus a first-year yield of the $5 a barrel tax will be close to $125 millions, far below the top estimate of $300 millions.

Cold, Pre-War Figures

Claims of new jobs created run as high as 1½ millions. The brewing industry never was a heavy employer, won't be now. Adding the figures of distilleries and wineries to brewery figures, brings pre-prohibition employment of wage and salary earners to 95,000, with perhaps 170,000 more for distribution, total, 265,000. Against this, the House Ways and Means Committee's estimate of 300,000 employees for making and distributing legalized beer alone appears highly optimistic. From it must be deducted the numbers heretofore busy with near-beer, also the obscure thousands in bootleg activities whose jobs may merely pass from an outlaw to a legal status.

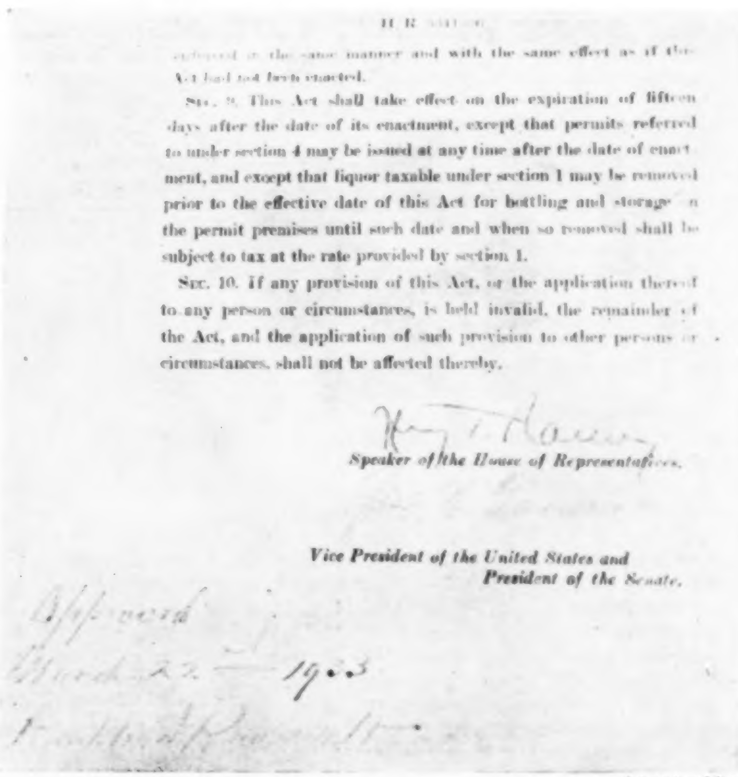
F. W. Dodge Corp. estimates a $65-million outlay for the next 4 months to modernize old plants and build new ones. A high figure of $400 millions is placed on the complete rehabilitation of the industry. Delivery service will be expanded all down the line. Result, greater demand for large and small trucks. Certainly makers of bottles, bottle caps, kegs, cases, labels, retail fixtures, are in for a continuing run of new business. Whether the states permit seated or foot-on-rail consumption of beer, real estate owners will be gladdened by the disappearance of "For Rent" signs.

Exaggerated hopes are being held out to farmers. The Department of Agriculture warns against overplanting of barley. In the wet days, brewers and distillers together used less than 2% of our grain production. Vast quantities of corn and other cereals now are being marketed as moonshine.

Railroads are going after their share of legalized beer traffic. Southwestern roads seek to induce St. Louis brewers to ship by rail instead of trucks, have asked the I.C.C. for permission to put into effect rates on beer and kindred products 15% lower than those otherwise applicable. General American Tank Car Corp. has contracts to supply refrigerator cars to 8 big brewers in Milwaukee, Chicago, and St. Joseph, Mo. Some 500 cars have been reconditioned for this service.

Congress having produced the beer bill, it now becomes the worry of state legislatures. Twenty-three states can sell beer after Apr. 7; 12 can legalize it with statutes; all others have prohibition embedded in their constitutions. Vital to the states is the question of tax production, vital to the captains of political hordes is the question of local control with jobs for the faithful and contributions from the "interests." New York and other states, fearing future attacks, seek to keep the brewers from a return to control of retail outlets with its revival of saloon evils. Legislatures are in such a fever of confusion and hurry that it is impossible at this time to chart the trend of control measures.

With brewer control of retailing and


H. R. [illegible]

[illegible] in the same manner and with the same effect as if the Act had not been enacted.

SEC. 9. This Act shall take effect on the expiration of fifteen days after the date of its enactment, except that permits referred to under section 4 may be issued at any time after the date of enactment, and except that liquor taxable under section 1 may be removed prior to the effective date of this Act for bottling and storage on the permit premises until such date and when so removed shall be subject to tax at the rate provided by section 1.

SEC. 10. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Speaker of the House of Representatives.

Vice President of the United States and President of the Senate.

Approved March 22 — 1933

International News

BEER BILL—The Act of Congress, approved by the President, which opens the way to renewed activity in the brewing industry and added revenue.

saloon revival generally frowned upon, new lines of distribution are being formed. In New York, busy Benjamin Schwartz, trade relations counsel, organized the Brewery Product Distributors Association to protect the interest of small wholesalers who have built up a business of selling near-beer to homes, who now want to do the same with 3.2 beer. Drug stores and groceries are interested in catering to the national thirst, but the former generally have no delivery facilities and the latter are afraid that state license charges will be so high that beer sales won't be profitable. Hotels, restaurants, beer gardens, being able to sell on a per-drink basis, are in a better position to pay the high licenses that are inevitable. A worriment to legislators is the fixing of rates high enough to produce sizeable returns, low enough to attract licensees. Meanwhile, distributors of soft drinks such as ginger ale, with their organizations already perfected, are set to do a wholesaling job as soon as state laws fix conditions. Canada Dry Ginger Ale, Inc., makes a bid for the snooty trade by contracting to import and distribute bottles of the famous German Wuerzburger. Barrels will be handled in this country by August Luchow, Inc.

BEER BARREL, NEW STYLE—The stainless steel kegs developed by A. O. Smith Corp., Milwaukee, which are being turned out at the rate of 4,000 a day by 400 workers in 3 shifts. Brewers used pitch-lined wooden kegs, so Ben Barth, engineering lieutenant of L. R. Smith, president, worked out a process to make pitch stick to steel, give the *braumeisters* what they want.

Copy to Come

Of importance to all publishers is the uncorking of beer advertising appropriations, estimated by *Printer's Ink* at $13 millions for the first year. The federal law specifically permits carriage by the mails after April 7 of advertisements published in wet states to subscribers in dry territory. States may pass laws prohibiting the display or sales of such publications on newsstands, or the publication of such ads within their borders. Prohibition states must endure broadcasting of beer ads from wet territory. However, a station in dry territory could not broadcast boosts for beer.

Many brewers have not waited for the legal date to get their names before the public. An advertising agency executive puts it this way:

"We believe that immediately after Apr. 7 there will be a runaway demand for beer. Demand probably will exceed supply. The real test will come with the end of hot weather and the inevitable slump in demand. What will count then is effective advertising."

Until Apr. 7 the sale of beer may not legally be advertised. But there are ways around. Schaeffer, Brooklyn, has been advertising in magazines and billboards its "beverage." Displays show a triumphant hand holding skyward a foaming glass while type declares that the hand of the oldest lager brewery in the U. S. has not lost its skill.

Nobody seems to fear that bootleg gangs will muscle into the promised paradise of malt and hops. They argue, first, that the beer runner was tolerated because public opinion wanted him and public money supported him. Hereafter opinion will be against the illicit beer traffic. A state that formerly winked at bootleg operations now will be interested in subduing them. It will have a tax and license income to protect, and companies paying those imposts will demand police defense in return. Again, bootleg beer is a poor article which cannot compete with scientifically made brew even if it could meet its price. Illicit brewers can't equal the low costs of big brewers. Illicit competition would have to pay huge sums for police protection and this item would mount to more than license costs. The unlicensed brewer could not advertise, while legitimate adversaries could thus develop sales and goodwill. Whether rich booties might finance a company and obtain a regular license is something else again.

Interesting is a sudden and violent boom in the piquant pretzel, inevitable complement of the foaming schooner. *Bakers' Weekly,* other publications, trade organizations are swamped with letters asking where pretzel machinery can be bought, how pretzels are made, the details of their bending. National Biscuit Co. reports its plants at York, Pa., and St. Joseph, Mo., are on a 24-hour schedule, producing a combined daily total of 9 million pretzels. Many of these are the new straight models, others are bent to the classical ideal. Machinery has been invented which claims to do the bending, but most producers cling to the good old handcraft. Pretzel benders are mostly women. In Pennsylvania the art is handed down from mother to daughter. Champion benders can kink 25,000 daily. Here is one bar against the newcomers, but established producers fear an overcrowding of the market.

Pretzel Demand Grows

Pretzel demand has grown steadily since prohibition, a result of home drinking. In 1929 production was 43,800,000 pounds; two years later it had increased by 2 million pounds.

Enthusiasm over 3.2 brew obscures certain ramifications of the new law:

(1) Near-beer will be produced but brewers expect little demand after palates become used to the other product. Consumption of near-beer was dropping anyhow. It fell from 9,200,000 barrels (31 gallons each) in 1921, to 3,866,000 in 1929, 3,137,000 in 1931.

(2) Home brew. New York's District Attorney Medalie opines that after Apr. 7, home brew will be illegal. He finds a section of the new law which retains the National Prohibition Act for brews "not labeled and sealed" according to regulation, license, etc. Nobody thinks, however, that home brewers will be hunted.

(3) Legalized 3.2 wine. Such vintages have been despised and rejected by everyone except companies which saw a chance to cut strong wines to the legal alcoholage by carbonated water and other dilutions. It now appears that, in addition to the $5-a-barrel tax, supplementary levies may raise the impost to $25 a barrel, make the cost too high for successful marketing.

Detroit Gets a Bank

Local jealousies, fears of Wall street, fears of Ford, fears of individual losses prolonged Detroit's bickerings for 6 weeks while business starved. Then Washington lost patience, and with General Motors started a new bank.

THE National Bank of Detroit opened for business Mar. 24, the first to be chartered under the Emergency Banking Act. Sponsored by the R.F.C., which bought all the preferred stock, and General Motors, which bought all the common stock, it starts under the best of auspices. It ought to be strong—and it will have to be, to win the nerve-shattered population of the Motor City back to faith in banks. The Roosevelt Administration has high hopes for it, as the shining example of how its bank reorganization policy will be worked out.

Few business stories of modern times have been packed with the drama of Detroit's banking crisis. With a suddenness that left every Michigander stunned, Governor Comstock's decree fell upon the banks Feb. 14. Competent authorities say the problem should have been solved in 8 days. Instead, it took 6 weeks.

The inside story isn't fully known, may never be known in all its details. But insiders will divulge enough to give the general outlines. For weeks the two dominating groups, First National and Guardian Detroit, wrestled for advantage. They simply would not agree upon unified action.

Meetings were held privately. The public was told little. Communiqués from the war councils that "substantial progress is being made" became the butts of derisive laughter. At one stage, Henry and Edsel Ford volunteered to come to the rescue, and arrangements were made to start 2 new banks, embodying the Fords' ideas of sound banking. But the bankers didn't want to be rescued. They knew that the Fords' first move would be to wipe clean the slate of officers and directors, and start over with new personnel. They knew that both the First National and the Guardian would go into receivership, with offsets of deposits against loans, and stockholders and directors held liable for losses. So the Ford move was blocked.

Bankers representing Wall Street and the Mellon interests likewise proffered aid, but their plans also involved scrapping the old banks and launching new. Old Detroiters in all their dignity rose in protest against prospective domination of their finances by Wall Street. They were determined to keep the directorates of the banks representative of Detroit's best families.

Detroit vs. Wall Street. Detroit group vs. Detroit group. General Motors and Chrysler vs. Ford. Outstate banks with reserves tied up in Detroit vs. Detroit interests. Thus the complicated line-up.

Meanwhile the town continued to depend on the grapevine telegraph for information. The more reluctant the bankers were to talk, the less confidence the public had in them. Retail merchants pounded at the bankers' doors, demanded the depositors' rights to further withdrawals, pleaded business was being ruined. They were ignored. At one time the spectre of a food shortage caught the imagination of Detroiters. Over one week-end, there was a mad scramble by householders to lay in provisions. In 24 hours, retail grocers, wholesalers, and even manufacturers' warehouses were cleaned out of staples.

What, No Scrip?

Any remaining confidence of Detroit in the officers of the old banks fled with the revelation of the scrip hoax. The Detroit Clearing House Association was having $26 millions of scrip printed to distribute in lieu of a second 5% cash disbursement. The night before the scrip was to be offered the newspaper men were called in and told it would not be issued because counterfeiting had been discovered. It later developed that the scrip was being printed in defiance of Washington's orders to wait on new currency, that the bankers found themselves in an embarrassing spot, tried to extricate themselves by devising the counterfeiting yarn themselves. This was all admitted when the facts came to light.

Next came announcement from Washington that the new set-up provided by the Emergency Banking Act would be invoked, with the R.F.C. subscribing preferred stock in a new bank, provided depositors of the old banks could raise capital for the common stock. Assets of the old banks were to be discounted by the Federal Reserve to pay depositors 50% immediately. Detroiters again got a case of jitters. The Detroit Board of Commerce wired Washington that 4,000 small business firms would be wiped out by application of the offset principle in liquidating the old banks. The plan was temporarily shelved.

Washington Gets Angry

Eventually Washington lost patience. The Treasury abruptly announced the National Bank of Detroit had been granted a charter. The R.F.C. would subscribe all the preferred stock, General Motors all the common stock, $12\frac{1}{2}$ millions each. The new bank would take over the liquid assets of the two old banks; probably would pay out 30%

International News

DETROIT'S NEW BANKERS—James McEvoy (center), General Motors legal representative, sits down at the president's desk in the newly organized National Bank of Detroit. With him are John Thomas Smith (left), chief counsel for General Motors, and Donaldson Brown, vice-president in charge of finance of G.M. Deposits the first day totaled more than $11\frac{1}{2}$ millions.

in addition to the two 5% payments already made; probably would open the following Monday, Mar. 27.

That night (Wednesday, Mar. 22) things began to happen. Police Commissioner James K. Watkins went on the air with a vicious attack on the proposed program. The plan would "sell out Detroit to Wall Street." General Motors was a "cloak behind which New York bankers were hiding." The government was attempting to liquidate the old banks at today's ruinous prices. He advocated giving the 2 old banks a chance to work out of their troubles under a new set of officers and directors plus the conservators.

Mr. Sloan Explains

The next morning at 9 o'clock a press conference was hurriedly called. Alfred P. Sloan, Jr., announced the new bank would open for business the next day (forestalling any further obstructionist tactics). He asserted that "General Motors' responsibilities are great enough without taking on any additional troubles. Five or 6 weeks have elapsed since the banking crisis. There was a need for something to be done. I wish again to emphasize that General Motors went into the banking business merely to establish a bank here. Our ultimate objective is to eliminate ourselves from the banking picture as soon as possible. We want to turn it over to others." G.M. will offer to Detroiters, depositors and stockholders of the two old banks preferred, all of the 250,000 shares of common stock at cost—$50 a share.

Thursday evening was exciting. Commissioner Watkins was on the air attacking the Roosevelt plan; Father Coughlin (of Shrine of the Little Flower fame) was on the air defending it at the request of Mr. Woodin. Watkins spoke 4 times, Father Coughlin twice in the radio debate.

Old Banks "Impaired"

Promptly at 10 o'clock Friday morning the new bank opened with a fanfare of publicity. It received more than $12 millions in deposits the first day. At midnight, Jesse H. Jones, director of the R.F.C., with the authorization of Mr. Woodin, said (1) the Treasury took the initiative because local people had been unable to agree and it seemed necessary that Detroit have a bank without further delay; (2) the government had attempted to enlist the aid of General Motors, Chrysler interests, and the Fords; (3) to save time, General Motors offered to advance the entire $12½ millions for common stock; (4) President Roosevelt wants only sound banks reopened; (5) losses in the old banks extend far beyond their capital structures; (6) any other course than is being pursued would cause greater loss to depositors and stockholders; (7) the government has put forth every effort to provide sound banking facilities for Detroit and has every right to expect hearty cooperation of all the people. Later Mr. Jones said on the question of offsets: where a depositor's credit is good, his note and his account will be taken over from the old bank by the new one. The R.F.C. has no intention of offering its bank stock for sale until there is a general recovery, then the stock will be offered first to the people of Detroit. In addition to the 10% already paid, 40% soon will be available for depositors.

Detroit feels the government has done the only thing possible, that Watkins is representative of a noisy but small minority, that General Motors is unselfishly trying to help. General Motors pays $2 millions of taxes in Detroit annually; 55% of its payroll is in southern Michigan; its largest plant and real estate holdings are in Detroit, Pontiac, Flint, Saginaw, and Lansing.

Why Disaster Came

First National Bank–Detroit (largest number of stockholders of any U. S. bank—over 700,000) and Guardian National Bank of Commerce fell upon evil days because of a combination of circumstances. They were partially the victims of a drastic deflation in Detroit real estate values and in Detroit's industries. Detroit had a mining-town boom; real estate is staked out for twice its present population, or more. Real estate mortgages held by banks are deeply involved. First National alone has $147 millions, or 31% of its total assets, in 50,000 real estate loans.

Depression has hit Detroit harder than any other large city. Its industrial operations have been far below those of the rest of the country. This has meant slow but steady withdrawals of savings funds from Detroit banks for living expenses during the past 3 years. In addition, large write-offs have been made in holdings of the 2 banks. First National's resources since 1930 had shrunk from about $700 millions to $471 millions.

New Era Banking

But not all Detroit's banking troubles are due to deflation. Part are due to applying New Era philosophy to banking. In the wave of mergers of small banks which formed the two dominant groups, the conservative, experienced heads were ousted. New policies were more speculative, including excessive individual loans secured by insufficient collateral. Rivalry drove the managements to overstep wise bounds in soliciting new business. The banks were burdened with excessive overhead and too many branches (First National had over 140 branches).

Receivership proceedings were instituted by stockholders Mar. 25 against the Detroit Bankers Co. (holding company for First National Bank and its small affiliates) and Guardian Detroit Union Group, Inc. (holding company for Guardian National and its affiliates in Detroit and in other Michigan cities). The suit against the former charges that officers and directors (1) voted themselves excessive salaries; (2) loaned excessive sums to themselves or corporations in which they were interested; (3) were negligent in operation of the First National Bank; (4) issued financial statements which failed to disclose the true condition of the bank; (5) negligently permitted the improper management of the bank to continue; (6) used information gained as directors and officers for their personal benefit.

Municipality Hard Hit

The banking holiday and the liquidation of Detroit's 2 old big banks will long leave its mark on Detroit. The municipality, already reeling under excessive debt burden, has been dealt a body blow. Tax collections, 40% delinquency already reflecting the impoverishment of Detroiters, will fall to even lower levels the coming year. A complete breakdown of educational and governmental agencies is threatened. It is conservatively estimated that in the early part of March over 50% of Detroit's working population were unemployed. The load carried by the welfare department of the city has risen above 47,000 families. Public school teachers and city employees have received no pay since early in February, will soon be paid in scrip if the city can get authority to issue scrip. Some of them already are on the municipal welfare lists.

Some Scars

During the holiday, retail trade dropped more than half; stores made sharp cuts in wages, reduced the number of employees. Some retail stores permanently abandoned charge accounts, except for a small preferred list of prompt-paying customers. Scores of small establishments will be forced out of business; the trail of receiverships will extend over the entire year. The municipal Detroit Street Railways, heretofore able to meet its fixed obligations, is about to ask bondholders for a 2-year moratorium. Its revenue in March was $500,000 less than in March, 1932, an amount equal to its monthly payroll.

With average employment in 1923, 1924, and 1925 used as a base, Detroit's employment index stood Feb. 1 at 49.2, on Mar. 1 at 33.5. Purchases of automobiles fell off precipitately, nevertheless between Feb. 14 and Mar. 14 Detroiters spent $1,263,000 for motor cars. People in Detroit are still eating. The revenues from the municipal markets show about the same volume on farmers' produce as before the holiday.

The biggest job before the bankers is to nurse back the confidence of the Detroit public, which has been completely shattered. It is conceded this will be a slow process.

Acme

TALKING OVER FARM RELIEF PROSPECTS—Members of the House from the dirt-farm districts of Minnesota discuss the Farm Bill. Left to right, Representatives Kvale, Shoemaker, Arens, Magnus Johnson, and Lundeen.

Reducing Farm Debts

Roosevelt's program offers bait to farm mortgage holders to cut claims. The two Henrys—Wallace and Morgenthau—are now dictators of the farmer's destiny.

THE new farm debt plan is a bait to farm mortgage holders to discount their mortgages with the government. Just as the farm emergency bill (*BW—Mar29'33*) offers the farmers a reward to reduce their acreage, so the farm mortgage bill offers a reward to mortgage holders if they will reduce the mortgages or interest rate, or both.

The administrative features of the plan have been reduced to the utmost simplicity. A Regional Credit Corporation is to function in each county through a voluntary debt adjustment committee consisting of farmers, business men, and bankers.

Can Make Direct Loans

The Regional Credit Corporation, under some limitations, is authorized to make loans direct to farmers for paying interest, amortization, or taxes for a period of not more than 3 years. Extension of these loans, however, will be made contingent upon an adjustment of their long-term indebtedness. That is, creditors will be paid if they will consent to debt reduction.

Farmers do not have to be delinquent debtors to get help. Those who are excessively indebted, but who by undue sacrifices have managed to keep their loans in good standing, are not excluded.

The next step is the voluntary agreement between mortgage holders and farmers to refinance farm mortgages at such terms and such rates of interest as are consistent with the debt-carrying capacity of the mortgaged farms. The Federal Land Banks, using funds obtained from the Reconstruction Finance Corp., would be authorized to refinance, under certain conditions, existing indebtedness of farm owners, including interest and taxes. The land banks would be authorized to purchase existing mortgages or to exchange Reconstruction Finance Corp. bonds therefor. Moreover, it is recommended that the bonds of the Federal Land banks be guaranteed by the government which would lower their rates of interest on the open market and this lower rate of interest would be passed on to the borrowers.

As forecast in *The Business Week* (Mar. 29), the advances to be made by the Regional Credit Corp. and the subsequent exchange of mortgages is to be predicated upon a voluntary agreement whereby farm mortgages are to be scaled down to 75% of the fair value of the security. Second mortgage loans could also be made as an inducement for scaling down the first mortgage. Opportunity is given for refinancing existing mortgages when adequately secured at a lower rate of interest with the Reconstruction Finance Corp. This provision applies to mortgage holders who prefer to exchange their mortgages for low-rate interest bonds for the same amount and it thereby also gives them an opportunity to refinance farmers whose mortgages mature.

U. S. to Hold Bag

In none of the loan plans is it contemplated that the farmer will increase his total indebtedness. The plans represent an outright reduction in indebtedness through providing credit facilities which will induce existing holders to scale down their mortgages and interest rates, by shifting obligations from existing mortgage holders to federal agencies.

Of no less interest to the farmer as well as to the taxpayer is the reorganization of farm agencies by President Roosevelt. This is no mere reshuffling of departments. It provides for more efficient service at a saving of several millions annually. Under this order a new agency is established, known as the Farm Credit Administration, of which Henry Morgenthau is to be head and dictator. Under him are consolidated the agencies of the defunct Federal Farm Board; the Federal Farm Loan Bureaus; all the credit functions of the Treasury Department and the Department of Agriculture, including the advances of loans to farmers, fruit growers, producers, and owners of livestock; the crop reduction loan office; the seed loan office; the functions of the Reconstruction Finance Corp. relating to the management of the Regional Agricultural Credit Corp. and the Emergency Relief Act of 1932; and all powers and authorities and duties conferred by law upon any officer dealing with farm credit. The Secretary of the Treasury and the Secretary of Agriculture are removed from any of the agencies with which the new farm credit administrator is to deal.

Two Dictators

This sweeping order places in the hands of Henry Morgenthau extraordinary powers greater than those held by any other single administrator in Washington. As the line-up now emerges it becomes obvious that the farm problem is to be directed by two dictators—the emergency bill makes Secretary of Agriculture, Henry Wallace, the dictator of farm crops and farm lands, while the farm debt plan, accompanied by the executive reorganization order of farm agencies, makes Henry Morgenthau the dictator of farm finance. The future

International News

FOR—Miss Frances Perkins, Secretary of Labor, tells the joint session of the House and Senate Labor Committees that the President's plan for a job army of 250,000 men is a good thing. Left to right, foreground, are Representative Connery, Jr. (Mass.), chairman of the House Committee; Senator Walsh (Mass.), chairman of the Senate Committee; Miss Perkins.

course of the farmer, on whose rehabilitation rests the revival of industrial activity in the country, is being placed in the hands of the two Henrys. It is these two men who may make or break the new Administration.

Secretary Wallace is a realist. He has no patience with cure-alls or high-flown theories, offers no solution to the agricultural problem which magically will bring prosperity to the farmers. He sees the farm problem as the aggregate of many individual farming problems, and realizes that fundamental improvement of farming conditions will be a long-time process. He is by no means radical in his views, but like the President, is anxious to experiment with new ideas that appear to be workable. Although he is a staunch friend of the farmer, he is not an impassioned crusader for farm relief. Instead he retains a proper perspective, and, like Mr. Morgenthau, believes that the farmer should be given equal opportunities with other American workmen and that a solution of the farm problem is essential for the well-being of the country as a whole.

Both men are easy to meet and candid. But while Secretary Wallace's complete lack of experience with Washington politics may lead him into difficulties and misunderstandings, Mr. Morgenthau is politically adept. In addition, he is typically an executive—confident, intellectually keen, and forceful. His ambition is to set up a federal farm financing system which will be administered with comparatively little of the political pressure which caused discriminations in the past.

Debt Deflation

Bitter-enders are finding deflation less controllable than inflation.

EFFORT of government, industry, and agriculture to rid themselves of debts that have become unmanageable at present price levels is going on relentlessly. Huge debt reduction programs are under way. There is much discussion of elimination of debts via inflation and by the devaluation of the dollar, but in practice there is vigorous activity via liquidation and deflation, by an out-and-out writedown of mortgages, or refinancing of debts at lower interest rates.

This latter process is already under way and continues on a scale scarcely realized by the public. The $9\frac{1}{2}$ billions of farm mortgages have already been written down by moratoria, resales, interest rate reduction, and capital writedown. Further deflation is projected by discounting farm mortgages at lower interest rates with the government.

Proposals are pending in Washington looking for moratoria, a writedown and a refinancing at lower interest rates of \$16 billions of municipal bonds.

Before long, there will emerge some plan that will similarly refinance \$15 billions of railroad bonds at lower interest rates. In fact, the new amendment to the bankruptcy law has laid the groundwork for voluntary action between bondholders and railroads.

Chance for Business

It is expected that legislation of a similar character will soon be enacted that will give an opportunity for corporations and individual business concerns to meet with their creditors with a view to writing down the mortgages, the interest rates, or both. The Realty Stabilization Corp. recently proposed in New York had the same principle in mind with respect to \$3 billions of guaranteed mortgages on New York real estate.

In brief, we have here a nationwide attempt to write down bonded indebtedness, one that affects every class of securities. In all economic thinking it has always been assumed that the bonded debt, popularly spoken of as the funded debt, is inflexible and remains constant during a depression as well as in a period of prosperity. The investments of many of our institutions such as insurance companies, savings banks, commercial banks, corporations, educational and charitable institutions are in these securities on the assumption that their value will remain reasonably stable, and that their income is dependable.

The implications of this nationwide writedown of all classes of securities therefore are far-reaching. The institutions carrying these investments will be compelled in one way or another to pass on the losses to their clients.

Where Losses Fall

In the case of savings banks, a larger portion of the losses may be expected to come from capital invested by stockholders, except in the mutual savings banks where the depositors will be forced to carry the brunt.

Educational institutions and charitable institutions dependent upon a bond portfolio will have to take their losses.

The commercial banks which hold almost \$7 billions worth of bonds have already been forced to pass on a large proportion of this loss to stockholders and depositors as is indicated by the suspension of some 5,000 banks in the last few years, and the failure of some 4,000 banks to open after the bank holiday. It is not improbable that these suspensions represent a write-off of much of the losses involved. Moreover, new losses about to appear can probably be absorbed by the newly reopened banks, partly by their capital and partly by the new capital that is now being put into the banks.

Bitter-enders argue that this deflationary process is a healthy sign in that

it cuts out what they called the "diseased spots" from the economic structure. They forget that no matter how well the scalpel is sterilized, these operations on industry actually widen the need for deflation. After cutting down interest rates and mortgages for the farmer it is found that it is necessary to deflate the commercial and savings banks and life insurance companies. When these are deflated it is found that many corporations dependent on their deposits or their bond holdings are forced to write down the value of their own plants and assets. This in turn means writedown to stockholders and other creditors, and decreases all around the ability to pay taxes. The vicious circle continues on and on and on.

It is not so certain that the deflationary measures are the steps toward recuperation.

"Other People's Money"

The President believes those who manage banks and corporations are trustees for others. He recommends going off the buyer-beware standard as the first step in restoring confidence in securities markets.

President Roosevelt's recommendation for "federal supervision of traffic in investment securities in interstate commerce" is only the first step in a program for "the better supervision of the purchase and sale of all property dealt in on exchanges," and the correction by legislation of "unethical and unsafe practices on the part of officers and directors of banks and other corporations."

Revelations before the Senate committee investigating the stock market made it obvious that Congress would be asked to do something drastic. As the details of the operations of Kreuger & Toll, of Insull, of the way in which certain South American and European bonds were sold, came to light, a demand for regulation grew. Some bankers, on the defensive, could do nothing to stop it; others, recognizing the situation, moved quickly to improve it from within. The two largest banks in New York publicly divorced their security affiliates.

The 35-page bill which accompanied the President's message provides for strict supervision, under the Federal Trade Commission, of the manner in which new securities may be offered to the public in interstate commerce. The federal government would guarantee nothing—except that the truth, the whole truth, and nothing but the truth about the new issue would be published.

By providing for full publicity, and for penalties to enforce it, the bill aims to protect the public "with the least possible interference to honest business." It is modeled after the uniform securities act approved by the American Bar Association, and after the laws in force abroad, notably in Britain, where even a peer has been jailed for their violation.

The regulations cover both domestic and foreign issues, apply to any security offered across a state line, or delivered across a line. Included are advertisements on the radio as well as in newspapers, magazines, and circulars.

Heretofore, in marketing foreign issues, bankers have merely informed the State Department that certain foreign loans were in the making, and have asked whether there was any objection. If none was made, they have gone ahead with the loan. This has led to the erroneous belief that foreign securities had the sanction of the State Department.

Under the new rules, the American sponsors must lay all their facts on the table, and guarantee them over their own signatures. The good old alibi clause in small print at the bottom of the circular, "This information is believed to be accurate, but is not guaranteed," will be obsolete.

It must here be conceded that the New York Stock Exchange took the first step in demanding corporation publicity before a stock is listed on the exchange. The growth of one of the largest security exchanges at the curb of the New York Stock Exchange is eloquent testimony of the selectivity exercised. Recent rulings and regulations by the Stock Exchange have tended toward more standardized and complete corporation accounting and publicity.

Although the proposed legislation applies only to securities offered in interstate commerce, being based on that act, it would practically compel the registration of all securities. Even if an issue might be floated within a single state, no underwriter could very well refuse to meet the government specifications, considering the present and probable future temper of investors.

The Administration has a dual purpose in making this move at this time: it will act to restore public confidence in the securities market; it will keep certain minority financial interests so busy defending themselves that they will not be able to hinder the construction of a new banking system.

The bill is the fulfillment of the promise in the Inaugural Address that "there must be an end to speculation with other people's money."


Acme

. . . AND AGAINST—William Green, president of the American Federation of Labor, tells the Joint Labor Committee that Labor is against any regimentation, that dollar-a-day pay would bring down wages. But in spite of his warnings of "Sovietism," the House passed the labor army bill.

Insurance Casualty

What has happened to business in general and to security prices in particular has happened to the fire and casualty insurance companies.

EDWIN C. JAMESON, who obtained for himself a prominent and sometimes uncomfortable seat on the front page at the time he contributed $62,500 to the anti-Al Smith campaign of Bishop Cannon, found himself again in the headlines last week. Globe & Rutgers Fire Insurance Co., of which he is president, third largest concern of its kind in New York State from the standpoint of assets, was taken over by George S. Van Schaick, New York's Superintendent of Insurance. Purpose: rehabilitation. The company's present policies will be continued in force, but it will write no new ones until further notice.

A premonitory slump in Globe & Rutgers shares indicated that insiders were not surprised. They had already diagnosed the company's troubles and traced them to the decline of security prices, loss of business, lack of liquid assets; had noted telltale figures in the last annual report. In 1932, Globe & Rutgers net premiums written totaled $17,866,490 against net losses paid of $17,668,002. On Dec. 31, capital amounted to $2,000,000 and net surplus to $7,458,200 against $7,000,000 capital and $14,732,005 surplus a year earlier.

Untoward developments in the fire and casualty field are unlikely to surprise the habitués of William Street, which is New York's "Insurance Row." The whirlwind has blown through there as it has through nearby Wall Street. This is just the inevitable aftermath.

Depression Troubles

Like the life insurance companies (*BW—Mar29'33*), the fire and casualty concerns are hard-pressed for cash. New business has fallen off and, as always happens in a depression, many a client has run out on his premium obligations or has preferred to take a chance on fire, shipwreck, sprinkler leakage, cyclone, civil commotion, or what have you. (The insurance companies have everything.) Also, as always happens in a depression, fire losses have mounted, not only by benefit of arson; hard times retard repairs, breed neglect, and otherwise increase fire hazards. And, of course, hard-times competition has inclined some companies to accept hazards that they would have cold-shouldered in the days when profits permitted 400% stock dividends such as Globe & Rutgers declared in 1922.

Finally, the new era philosophy with its emphasis on the safety and stability of investments in common stocks has left its mark on the fire and casualty field. Of a Dec. 31, 1931, investment of $75,809,292 in stocks and bonds (cut to $61,322,586 in 1932), Globe & Rutgers reported that it had $53,781,493 in stocks. "Unfavorable investment experience has, in late years, caused it considerable difficulty," says one dry commentator. The values at which these stocks are carried does not, of course, tell the whole story of the situation such companies must face if they are forced into the market by the need of converting their stocks into cash. So far, state insurance departments have permitted them to carry securities at convention values, whereby only part of the writedown has been taken in anticipation of an eventual rise in quotations to more normal levels.

Convention Values Challenged

All this explains the attention which Insurance Commissioner John E. Sullivan of New Hampshire attracted to himself last week when he ordered insurance companies doing business in that state to file supplementary statements as of last Dec. 31 with securities valued at market prices, adding that his department "has reached the conclusion that it is inconsistent . . . to permit insolvent institutions to continue herein on and after July 1, 1933."

Better Policy

On second thought, New York decides it would be better to pay insurance dividends.

AFTER imposing restrictions on life insurance company operations to protect their depleted cash resources (*BW—Mar22'33*), New York State, which initiated this move, has begun to release the valves. First sign is an order from the State Insurance Superintendent permitting the resumption of dividend payments to policyholders. Dividends due stockholders are still suspended.

The State Insurance Department now finds that "earnings were sufficient not only to provide for 1933 dividends but for substantial additions to reserves for contingencies." It notes that 90% of policyholders' dividends ordinarily remain with the companies.

It may be hazarded that the department knew all these facts before it acted, has since been persuaded that this is no time to alarm policyholders and frighten away insurance prospects by what would amount to a raise in rates.

The Business Week

TEASER DISPLAY—This seemingly simple pile of canned corn is really a carefully worked out display to show grocers how to sell corn. It is built high to show customers there's plenty, make it easy to order several cans; the deep notch down the center makes it look popular—customers don't like to take cans from solid piles. The price card, which the grocer fills in, makes the standard price look like a cut price. Erwin, Wasey designed it.

The Business Week

FOR THE HOME MARKET—Standard Oil figures its gasoline will help sell this polishing kit—and vice versa. It will be sold through stores, not service stations.

New Soapless Soaps

Procter & Gamble introduces "Drift" for the household, duPont offers "Gardinol" to industry. Both stem from Germany's sulphonate alcohol detergents, made by hydrogenation process.

SOAPLESS laundries at home and in industry are now in prospect, as a result of the introduction in America of sulphonate alcohol detergents—which are "soapless soaps." These long-named new chemicals are to be marketed under the general trade name "Gardinol." But the housewife is expected to buy her supply as "Drift," a conveniently boxed form sold by grocers like soap chips.

The development of these new cleansing chemicals was accomplished in Germany by Deutsche Hydrierwerke A.-G., and H.Th. Böhme A.-G. The U. S. licensing agency of this Continental cartel is the American Hyalsol Corp. It has granted lately 3 licenses for manufacture and sale in America—to duPont for industrial and special uses, to Procter & Gamble for household and laundry sales, and for textile sales to a joint subsidiary of these 2, the Gardinol Corp. National Aniline & Chemical Co. will continue its American selling.

Where Soap Fails

Soap accomplishes its detergent (cleansing) action by aiding the wetting-out of the textile, by causing emulsification (breaking up into minute particles of adhering soil, and by softening of surfaces exposed to the suds. The result of using proper detergents is not alone the cleaning and consequent improved appearance; especially in fine textiles the process gives also a pleasant change in fabric texture, an improved feel, or as the British say softer "handle."

Soap often fails to accomplish such results fully, especially when used with hard water or when certain more refractory greases or stains are met. Therefore chemically treated soap fats often have been preferred for certain industrial uses. Sulphonated oils, such as turkey red oil, and a product of German origin called Igepon have met some objections to soap, largely by suppressing the tendency to form scummy precipitates with the lime and magnesia of hard waters. The Gardinols go one step further and eliminate wholly the portion of the fat compounds in soap which made such scums possible.

Ordinary soap oils are used as raw materials for the new detergents. The novel treatment is high pressure hydrogenation (the addition of hydrogen to the fat molecule), by procedures somewhat remotely resembling those used in converting cottonseed oil to Crisco and other lard substitutes. But here, by use of proper conditions aided by copper in a form to assist the reaction in the desired course, the result is a fatty alcohol. This big cousin of the better known alcohols is then combined with soda and sulphuric acid in a novel type of compound; chemically it is a sodium alkyl sulphate (not sulphonate as trade comment often indicates).

Advantages claimed include exceedingly active emulsifying and cleansing action, good lather, unusual penetrating power with resulting high wetting-out, neutral action without reaction on acids, bases or other chemicals, complete freedom from formation of solids even in hardest water.

These products are now on sale in this country under the trade names "Drift" and "Gardinol," and duPont is already manufacturing part of the domestic supply. Procter & Gamble gave "Drift" a year's laboratory tests, then began marketing in selected areas—picking those where the water supply is particularly hard.

Homeward Bound

Motorists who buy Socony live in homes that need polishing. So Standard of New York prepares to make its good-will work twice in the same market.

ONE preliminary to increasing sales is to discover what other rôles your typical customer assumes besides the one in which you usually encounter him—and what can be done in your line and with your entree to supply him with what he needs to fill such rôles.

Standard Oil of New York, whose typical customer is the motorist using Socony gasoline and oils, has been doing this. Discovering without any trouble at all that the motorist is apt to be a home-owner, or at least a householder, the company is now knocking on the front door with 3 new products which householders need and is counting on the good-will won on the road to get it across the doorsill.

3 in 1

The products are Socony-made polishes for (1) furniture, (2) woodwork, and (3) floors. To insure simultaneous distribution everywhere, they are being marketed in a "Household Pack" which carries a standard-sized container of each of the 3 plus a package of specially woven polishing cloths. Retailing for $1.95, it will be offered by department, hardware, household utensil and other specialty stores early in April. Socony service stations are out of this deal. A separate force of over 60 specialty salesmen is signing up stores to handle these products and other household items Socony will introduce later.

To get the first 3 off to a flying start,

the company is bolstering newspaper and radio advertising with a double premium offer. Early purchasers of a "Household Pack" have their choice of a new-type of floor polisher, or a lamp shade with an extension cord and adapter which can be used to convert one of the polish bottles into the table lamp that its designer had in mind. Old-timers look on all this as a logical homecoming, the lamp as an apt symbol. The Standards and the Rockefeller fortune grew up on a household product—kerosene—sold at every crossroad and used in every home when gasoline was just a nuisance, motor cars a hope.

Schrafft's

In a day of quality reduction, the largest food purveyor of its kind decides to keep right on doing business at its own stand in the upper brackets.

ON the fourth Wednesday in March, such of the 7,000 stockholders of the F. G. Shattuck Co. as journeyed to the annual meeting heard renewed the belief of their officers that it was better to mark time at the top of the ladder, than to come down in quality and try to climb up again when times are brighter.

These have been hard days for "quality goods." Many good names have been sold down the Avenue; much good will has been cashed in; many good companies have chosen the easiest way and reduced quality with prices to hold up falling volume and profits.

It was not easy to maintain the old standards; earnings last year were 55¢ a share, compared with $1.34 in 1931; volume had fallen off as flattened pocketbooks sought lower priced goods; competition from below had increased. But the Shattuck Co., as operator of the Schrafft stores, would make no compromise with quality. For Schrafft's was founded on quality, and prospered by catering to the upper brackets. It owes all its growth and a good bit of its beginning to the appreciation of a certain young man for quality.

Enter Mr. Shattuck

That young man was F. G. Shattuck, now chairman of the board, and still a stickler for quality in all things. He was a salesman for Greenberg, a New York bar goods and penny candy house, when he first tasted the quality candies of a Boston confectioner named Schrafft.

Much impressed, he went to work for that gentleman on commission. His territory ran from New York to the Rio Grande. This was in the early nineties; 6 years later, in 1898, he became sales manager at the then stupendous salary of $20,000 a year—and bonus.

Although over 48 years old, he was just beginning. On the site of Macy's present store, he started a small candy shop—and lost money. Then his sister came to town, managed the store while he went on the road, and showed a profit.

In 1908, they moved to 23rd St., then the shopping center of New York. Here, sandwiches and hot coffee and chocolate were added, and the Schrafft stores really began. The following summer, home-made ice cream was served, and another important branch of the present business was started.

The Shattuck formula, thus begun, kept going; other stores were added, following the quality shopping district in its movement northward. When the Shattuck Co. bought out the Schrafft interests, the yearly gross had been raised from $75,000 to $3,500,000.

Instinct for Quality

Although the Schrafft name has been kept, the Shattuck influence has been predominant in the growth of the company. Born on an upstate New York farm, Frank G. Shattuck showed a cosmopolitan taste for good food, an instinct for its proper background. He had his own ideas on kitchen layout and dining-room decoration. Schrafft kitchens were original in design, are still models. Schrafft dining-rooms are a school of decoration in themselves. Shattuck personally likes fine wood panelling, soft colors, neat, bright fixtures. Finest of Schrafft settings, the Alexandria Room in the 556 Fifth Avenue building, reproduces (as does the Metropolitan Museum) a famous background of Colonial America. This building cost a million and a quarter to build and equip.

Shattuck, at 80, is still active in the business. Tall, white-moustached, he looks like a banker. He still enjoys good food, likes to eat in his own restaurants, knows exactly how a given dish should look and taste and raises hell when it doesn't come up to specifications. He works 50 weeks out of the year, goes to Florida for 2 weeks every winter, but calls up the office every day. He is old-fashioned enough to resent publicity.

Schrafft's, today, has 41 stores, 33 in New York and suburbs, 5 in Boston, 2 in Syracuse (Shattuck's home town), 1 in Philadelphia. The site for another in Newark has been chosen and it is under way. Locations are carefully selected, must be able to carry the proper volume, lend themselves to the close control which is an important part of the Schrafft plan.

About 30% (it used to be 40%) of Schrafft's business is candy; the balance is food—served over the counter, at the tables, or sold at the bake goods counter. There is also a catering service which will deliver a bridge luncheon for 4, or dish up a buffet supper at the Engineers Club for 700.

The Schrafft formula is simple: high quality, rigidly controlled. It begins in the markets: before dawn, when the produce merchants spread their wares for the buyers, the best of the vegetables and fruits have been set aside, neatly ticketed, "Reserved for Schrafft's." A standard premium is paid for this extra quality.

Some Statistics

Schrafft's today has about 8,000 employees. In 1932, over 25 million separate checks were paid through its cashiers' wickets. Milk and cream consumed in the New York stores alone kept some 8,000 cows busy, and 38,000 hens contributed their total output.

Chicken is the favorite dish in Schrafft's, and almost a half million chickens and fat fowl went into chicken patty, salad, and sandwiches. Over a quarter million pounds of ham were served, and some 932,000 pounds of the very best butter. Chocolate is the favorite soda, with vanilla leading in the ice creams.

Women have played a large part in the development of the Schrafft organization. It was Shattuck's sister who started the shift from candy to foods. All the cooks are women; guests are seated by hostesses, served by waitresses. Many of the managers are women, too, and one woman, Grace M. Austin, started as secretary, is now Secretary (with a large "S") of the company, and an important factor in all of its operations.

Importance of the Ladies

Women are still the more important sex as customers, too, although Schrafft's has realized the greater capacity of the male, installed men's grills in many stores. The coming of the masculine appetite has broadened the menu, there are meats and more hot entrees as well as salads and creamed chicken. Desserts still occupy their prominent place, however.

Because the raw material cost is a proportionately small part of the finished food price, Schrafft prices are still high, fall into the hotel class.

The Shattuck Co. is one of the largest buyers of nuts, cacao, sugar, coffee, and other food staples. It plans to contract for some of its future requirements in the present market. At the same time, it is materially increasing its advertising program.

BILLING

INVESTIGATE THESE NEW METHODS THAT SPEED UP WORK AND CUT BILLING COSTS

SEND FOR THESE FOLDERS ON BILLING

1 This folder shows how Invoices are written, calculated and totaled in one operation—continuous billing forms may be used, if desired.

2 Illustrates a plan by which Invoices are written, calculated, totaled and Cost Price (or Commission) figured at one operation.

3 In the method described in this folder, the Invoice is written and calculated, Ledger and Statement are posted with one handling of media.

MAIL THIS COUPON

BURROUGHS ADDING MACHINE CO.
6234 Second Boulevard, Detroit, Michigan

Please send me, without charge or obligation, folders numbered__________

I am interested also in other folders on the subjects checked below.

☐ Payroll ☐ Figure Distribution
☐ Stores Records ☐ Accounts Payable
☐ Accts. Receivable ☐ Gen'l Accounting

Name__________

Address__________

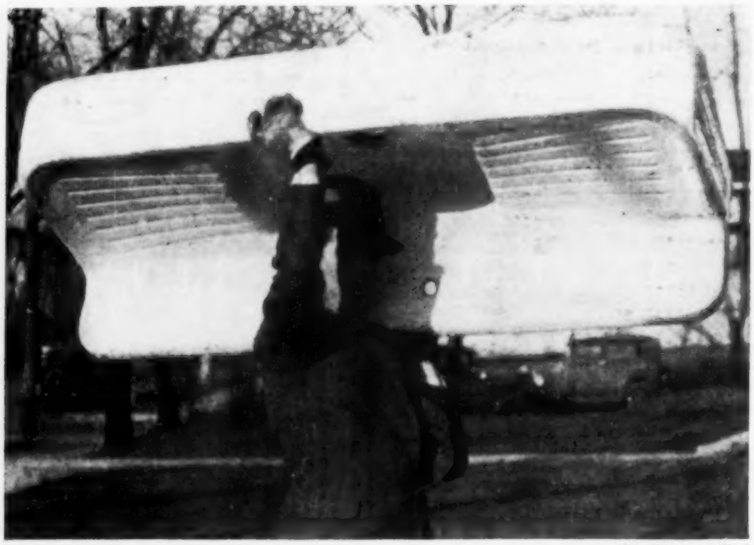
For many years Burroughs has made an intensive study of billing procedures, with the result that many new methods . . . many new machines . . . have been developed to bring greater speed and economy to this phase of accounting.

These days especially, every firm that would cut the cost of billing still further, should become familiar with these new developments.

For example, do you know that the Burroughs Typewriter Billing Machine writes and computes a complete invoice in one operation, including all typing, extending, discounting and totaling? The same machine will also post various other accounting records.

To assist you in taking advantage of these new developments, Burroughs offers to send you—without charge—any or all of the folders on this page. Similar folders on other phases of accounting are also available.

Burroughs



The Business Week

ONE-MAN SINK—An enameled, cast-iron sink of this size weighs 250 lb. This stamped, enameled steel sink weighs a little over 100 lb., can be handled by one man. It was developed by American Rolling Mill, Youngstown Pressed Steel, and Briggs Manufacturing Co.

Now Pressed Steel Sinks

Stamped from special Armco sheets and porcelain enameled, new plumbing fixtures weigh less than half as much as cast-iron and sell for 25% less.

SEARS, ROEBUCK has in its present catalog an item which is sending cold chills up the backs of old-line manufacturers of ceramic plumbing fixtures—a porcelain enameled steel sink made from a single piece of stamped sheet metal. It retails at $23.95.

The sink is just the advance guard of the plumbing fixtures eventually to be offered by the steel-stamping people. A non-skid bathtub is in the development stage. Lavatories are on the designing boards. Both will average 65% lighter than present fixtures.

The market for sinks and other plumbing fixtures has been restricted, particularly in rural districts, because of the difficulty in transporting and installing cast-iron products, all heavy and cumbersome. The mail-order houses feel they are opening up a new field with a steel sink which is so light that the householder can carry it home in his car and put it up without assistance. All he needs is a couple of brackets and a few screws.

Steel sinks are made in 2 sizes—43 in. and 60 in. long. The 43-in. sink is 22 in. wide, has a skirt 8 in. deep, a backsplash 8 in. high, a sump 8 in. deep and a 19-in. drip. It weighs 50 lb. compared with 190 lb. for the same product in cast iron. Its shipping weight is 105 lb. as against 250 lb. for cast iron. It is shipped in plywood boxes, thus being totally protected. The usual method of shipping plumbing fixtures is in rough lumber crates.

Weight is not the sole advantage. The retail price is about 25% less. No extra charge is made for acid-resisting porcelain enamel, because the wet enamel process used in making steel sinks results in an acid-proof enamel surface. Cast-iron sink makers charge about 25% premium for color. There is no extra charge for colored steel sinks; in fact, they can be made more economically in colors than in white. It usually takes 3 men to erect a cast-iron sink; one man can take care of the steel sink installation. The steel sink, it is asserted, is not subject to the breakage and chipping of present products.

The Big Three in the plumbing fixture field (Kohler, Crane, Standard Sanitary) have confined their efforts to cast-iron products. They sell 50% of the market, have huge investments in foundries and other equipment to manufacture cast-iron articles. For a long time they regarded the stamped steel sink as merely a dream which could not be realized because of insurmountable obstacles to the proper forming of the steel. Now they are busy surveying the possibilities of this newcomer.

Manufacturers of steel sinks (Briggs Mfg. Co., Detroit, and Youngstown Pressed Steel Co.—the former supplying Sears, Roebuck and the latter Montgomery Ward) believe the Big Three eventually will be their customers, marketing the products which they build on a contract basis. Because of the facility with which steel sinks can be installed, makers see many potential sales outlets; (1) mail-order houses; (2) old-line manufacturers of cast iron, pottery, and china products; (3) direct-to-you plumbing houses; (4) large distributors and jobbers; (5) big wholesale hardware houses; (6) large department stores; (7) local, state, and federal governments. Scarcely any attempt heretofore has been made to tap wholesale hardware houses and department stores as outlets, but steel sink people feel they may become particularly good customers. In addition, an attractive export market looms ahead.

In 1930, ceramic plumbing fixtures worth $129 millions were sold in the United States. In the depression year of 1931, 700,000 sinks were sold. Principal outlets at present for these products are 1,040 plumbing supply makers, 3,060 plumbing and steamfitting supply dealers (retailers) and 43,066 plumbers and steam and gas fitters licensed to make installations.

The Briggs Mfg. Co. spent 1½ years surveying the industry, spent $10,000 on dies later discarded, eventually invested $90,000 in dies, tool, and engineering developments. Its porcelain enameled steel sink is made from a single sheet of Armco crystal-etched 14-gauge sheet steel. Briggs puts this sheet, possessing special drawing qualities and a structure specially adaptable for porcelain enameling, through 16 press operations. Only by close cooperation between designers and porcelain enameling experts has it been possible to make such stampings.

Creaseless

First fabrics made under British patents marketed.

BUYERS in New York are examining the first fabrics made in America under the anti-crease process patented abroad by Tootal, Broadhurst & Lee.

Pacific Mills, licensees, are displaying anti-crease cotton chiffon. It looks like any other chiffon—except that the mills have developed new and striking design patterns—but it will not muss. Swatches crushed in the hand spring back smooth when released.

The process, regarded in the textile industry as ranking in importance with the mercerizing process and the preshrinking developments, consists of impregnating the goods with a resin which makes the fibres springy.

You are entitled to have an Insurance Program built to fit your own individual needs

WHAT kinds of insurance do you think a man ought to own?

A policy which leaves his family free from debt when he dies?

Insurance which provides a living for his family and payment of a mortgage on the home if they have to go on without him?

A monthly income for his wife for the balance of her life?

An insurance plan which provides for the education of his children? And later on takes care of himself and any who may be dependent on him in the sunny autumn years of retirement?

Meanwhile, accident and health insurance to tide over uncertainties during money-making years.

* * *

Not every one can put into immediate effect such a well-rounded Program. But almost every one can plan such a Program now, and then make a start.

You have your own problems and are entitled to have a Program built for your particular use. It will cost you no more to own insurance which fits your case perfectly than to buy misfit insurance.

An experienced Metropolitan Field-Man will be glad to help you draw up a Program built to meet your requirements, considering your immediate needs, and keeping in mind your needs which will come later. Send for him. Or use the coupon.

Metropolitan Life's contracts afford a means to

- —create estates and incomes for families
- —pay off mortgages
- —educate children
- —provide income in the event of retirement
- —establish business credits
- —stabilize business organizations by indemnifying them against the loss of key-men
- —provide group protection for employees covering accident, sickness, old age and death
- —provide income on account of disability resulting from personal accident or sickness.

Metropolitan policies on individual lives, in various departments, range from $1,000 up to $500,000 or more, and from $1,000 down to $100 or less—premiums payable at convenient periods.

The Metropolitan is a mutual organization. Its assets are held for the benefit of its policyholders, and any divisible surplus is returned to its policyholders in the form of dividends.

Metropolitan Life Insurance Company,
1 Madison Avenue, (W)
New York, N. Y.

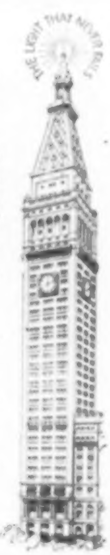
With no obligation on my part, I shall be glad to have further information as to the practical way of building an Insurance Program to meet my needs.

NAME ____________

ADDRESS ____________

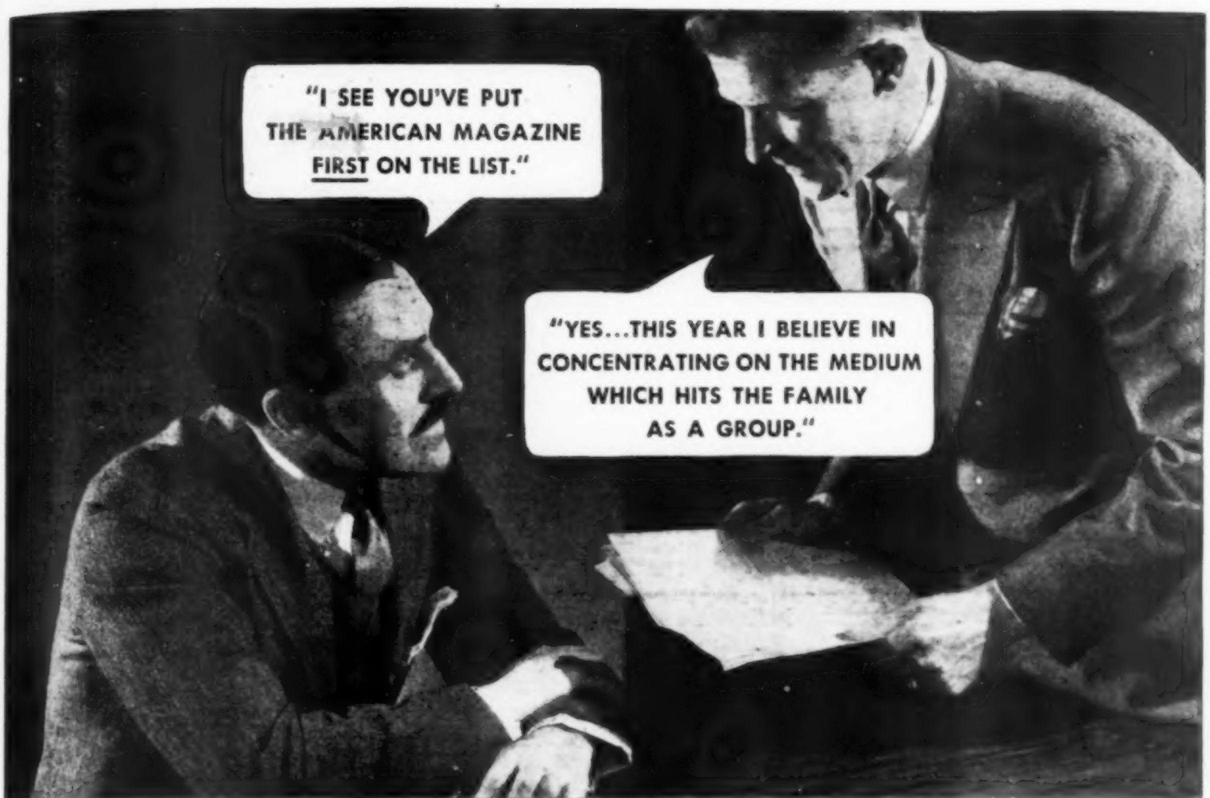
CITY ____________

STATE ____________



METROPOLITAN LIFE INSURANCE COMPANY

FREDERICK H. ECKER, PRESIDENT • • • ONE MADISON AVE., NEW YORK, N. Y.



BATTLE OF 1933

From the strategists of the past comes one important message to the business generals of the present: *"Choose your key objective. Then mass your forces to take it in a concentrated attack."*

The key objective of American business today is the family. And the wise strategist, whose dollars must work harder than ever before, is concentrating on the family as a group.

before, are putting The American Magazine first on their lists.

They are reaching the entire family... consistently, profitably, inexpensively.

PUT THE AMERICAN MAGAZINE FIRST

1933 business strategists have arrived at two definite conclusions on present day advertising:

1 The most profitable medium on any advertising list is that one which is most widely read by *the whole family*—father, mother, sons and daughters.

2 The American Magazine is more thoroughly read by all members of the family than any other magazine published.*

**Proved by scores of independent investigations. Data available on request.*

Magazine

all the family

. . . . . NEW YORK

Air Mail

Congress proposes to pay air lines for what they carry—which isn't so good for Mr. Cord.

As flying weather improves, American air transport companies keep an anxious eye upon Washington. With the domestic air mail appropriation cut 23% from the present year's figure, the future prospects of the individual lines depend upon Congressional and administrative decisions on the allocation of the $15 millions that remain. The new Postmaster-General has given no indication of his policy, whether it be to put all transport operators on a starvation diet by reducing all compensation in the same ratio or to carry on the most important lines as at present and to obliterate entirely those adjudged of inferior value. However, the House of Representatives committee on the post-office and post roads, equally influential in fixing policies, has declared itself.

Growing progressively more restive as Postmaster-General Brown rearranged the air mail service to fit his own ideal, Congress has been preparing to resume control. A document entitled "Report on Investigation of United States Postal Air Mail Service," and the introduction of a bill providing a whole new relationship between transport companies carrying air mail and the government, are the first results.

Payment to air mail contractors has for 2 years been based on a series of elaborate formulas, semi-annually revised and calculated to make the scale of compensation dependent rather on the difficulties of the route and upon the provisions made for the safety of passengers than upon the actual postal traffic handled. Now the responsible Congressional committee proposes a payment flatly proportional to traffic, except for minor modifications in the way of direct subsidies for the less well-favored routes during a 6-year period.

The committee report releases for the first time a public record of the financial status of the air mail service in its various parts. It reveals that the cost to the Post Office Department per pound-mile of traffic has ranged from 0.155¢ in the New York–Chicago route to 2.075¢ on that between Great Falls, Mont., and Salt Lake City. The approximate income from postage to the Post Office Department being just over 0.1¢ per pound mile, it develops that the two main transcontinental routes come near breaking even for the government, while most of the others show heavy loss, some of them very heavy indeed.

The new plan, now before Congress with the endorsement of the postal committee, is to pay all contractors at the basic rate of 0.2¢ per pound-mile. Upon that basis Transcontinental & Western Air, operating a transcontinental service through St. Louis and Wichita, would get practically the same compensation as at present. United Air Lines, most extensive system, would be cut but little.

Heaviest of sufferers would be American Airways, recently brought under the control of E. L. Cord. The most favorable possible application of the new air mail bill would still cut the compensation of American Airways.

At present United Air Lines and Transcontinental & Western Air, handling in the aggregate 79% of the nation's total mail traffic in ton-mile units, receive only 52% of the total mail payments. Under the new plan the two ratios would be brought closer together. The prospect of damaging effect upon certain routes was plainly foreseen by the committee, which dismisses American Airways in its report as having been "started out as a number of widely scattered local lines, which were later pieced together into a far-flung network of lines, by means of extensions granted by the Post Office Department."

Concerned over the presumed possibility of monopoly of air transport, the House committee also looked into interlocking directorates and holding companies, though not so far into them as will the Senate committee just beginning to function under an investigative resolution recently passed. First result of the preliminary search is a proposal in the new bill that no air mail contractor shall have any financial interest in or participate in the management of any line other than his own. The specific effect of such a proviso on holding companies controlling 2 or more companies remains uncertain, but the possibility of legislation arouses new speculations over the effect of the North American–General Aviation merger (*BW—Feb8'33*), which will give the General Motors control of Eastern Air Transport (New York–Miami), large interest in, and probably complete control of, Transcontinental & Western Air.

The Business Week

FIRST SELF-DISPLAY PACKAGE—There will be 5 different packages for the reincarnated "Force"—first of the cold cereals some years ago. Properly set up, they form their own display; "Sunny Jim," famous old trade character, leaps over the fence again. Another generation of children will laugh.

Cigarettes

February figures show price cuts regained roll-your-own customers.

REGARDLESS of hopeful headlines in the financial papers, tobacco tax figures for February, just released by the Internal Revenue Department, indicate no great gains by the cigarette makers, but strike a couple of cheery notes.

February, it will be remembered (*BW—Feb22'33*), marked the second cut in cigarette prices in the year, and the reduction of standard brands to a flat 10¢ a pack in the chains.

In February, production of "small" cigarettes, which are the kind most people smoke, fell to 7,853,997,217 from 8,622,222,367 in January. This, however, represents a gain over the same month of 1932, and is the first such gain since August of last year.

Sales of roll-your-own materials did respond, however, in the other direction. Manufactured tobacco decreased from 24,752,091 lb. in January to 21,780,898 lb. in February. Bolstering the belief that this means a drop in home-made smokes are figures for tax collections on cigarette papers, which fell from $81,611.70 in January to $51,564.52 in February.

New Plants—Where and Why

Nine big cities report 619 new firms, mostly small ones, and add to the evidence that industry is decentralizing.

DEATH notices have so dominated the vital statistics of business that most readers will be surprised to learn that in 9 of our larger cities alone 619 new industrial enterprises were born during 1932. A study of where and why they were born and what general trends are indicated brings out interesting data.

Such a study has been undertaken by *The Business Week*, following up a similar survey published a year ago (*BW—May25'32*). First reports are based on information supplied by the Chambers of Commerce of Atlanta, Boston, Chicago, Cleveland, Los Angeles, Memphis, New Orleans, Philadelphia, and St. Louis.

A breakdown of the figures from the 9 cities shows that of the 619 plants added to Chamber of Commerce records last year, 320 were entirely new, 22 represented reorganizations, 32 were newly established branch factories, and 22 were factories removed from other cities, leaving 223 whose antecedents could not be exactly determined. Five of the 9 cities reported plant extensions by 374 manufacturers in 1932.

As expected, most of the new plants were small ones apparently set up for regional service—which seems to support the theory that the depression is resulting in a decentralization of industry and giving birth to a type of company limited to serving nearby territory.

For instance, a group of 95 new plants reported by Boston shows a total of 2,454 employees, or an average of only 25.8 per plant. In Philadelphia, 146 new establishments claimed 5,755 employees, an average of 39. St. Louis boasts 115 newcomers in 1932, with an average of 11 employees. In 1931, it attracted only 71 but the average employment per plant was 18.9. Incidentally, 103 concerns already situated in St. Louis extended their floor space last year, against similar extensions by 75 in the previous year. But newly constructed space and idle space put into service in 1932 averaged only 8,162 sq.ft. against 12,250 in 1931 per factory.

Supporting other evidence of a trend toward regional service through decentralization of production by companies that have been operating on a national basis is the fact that, of the 396 new plants that could be accurately classified, 32, or 8% of the total, were branch plants of companies whose headquarters were situated in other cities. Examples of branch extension: Continental Can Co. is credited with new plants at Camden, Memphis, and New Orleans; Chrysler has built a plant at Los Angeles; so have the Dow Chemical Co. of Midland, Mich., the Falk Products Co. of Pittsburgh, the National Card, Mat & Board Co. of Chicago.

Those who have been anticipating the growth of a crop of small concerns started by executives let out by the merger of larger ones—or just let out—find in the reports some confirmation of their prophecies. For instance, Los Angeles has a new hat factory started by a former executive of a Danbury hat company. Its new Pacific Adhesives Co. is the venture of an ex-employee of a large Eastern concern in the same line. The Kaplan Lamp & Shade Co. is the baby of a one-time official of a Chicago organization. A new plant producing writing paper and stationery in Memphis has a similar background. Mickleberry Bros., Inc., has been set up by former members of the Mickleberry Food Products Co.

A number of the new plants evidently owe their existence to the ready availability of low-cost second-hand machinery, and in the case of several branch plants it has been definitely determined that equipment was brought from the main factories; they have merely moved part of the fixed capacity nearer to the point of consumption. However, many of the new plants have meant new machinery orders. In one group of 12, all but 2 were newly equipped. One food-processing plant bought $30,000 worth.

Some of the new concerns are obviously depression products. Among these is the Memphis plant which has started to make chimneys for kerosene lamps and reports a heavy demand for its output, although a few years ago, when light bills seemed less important than now, manufacturers of this commodity seemed to be headed for extinction. When, and if, better times once more retire lamps in favor of bulbs, this concern plans to switch production to minnow traps, glass jars, and other articles of more general use.

Of the 619 new plants reported by the 9 cities, the 328 which gave definite information on the products manufactured fall into the following classes:

Apparel	52
Automotive accessories	3
Beverages	2
Chemicals and drugs	35
Electrical products	16
Food and allied products	51
Furniture	11
Hats	4
Iron and steel	20
Leather and shoes	22
Lumber and forest products	8
Machinery	11
Metals	6
Paper products	8
Petroleum and its products	3
Printing	12
Rubber products	4
Textile products	35
Tobacco	2
Transportation equipment	3
Specialties	22
	328

RAIL CHIEFS—M. J. Gormley (left), new president of the American Railways Association, succeeds R. H. Aishton (right), now chairman of the board. With R. V. Fletcher, new general counsel, and A. P. Thom, associate general counsel, they will share increasingly heavy duties as spokesmen for the roads.

Wide Reading

IS OUR GOLD STANDARD TOO RIGID? George F. Warren. *Forum*, April. The depression was caused by the demand for gold. What we can do to correct the situation.

THE AMERICAN THEATRE GOES BROKE. Arthur Mann. *American Mercury*, April. There are only 12 cities outside Greater New York to which a Broadway play may be sent. Up to 5 years ago there were 410 such cities. There are only 18 plays on Broadway. The average used to be above 40. What's wrong with the show business, and why.

THE INTERNATIONAL RACKET IN MUNITIONS. *Labour Research* (London), March. What arms supplies England, France, Czechoslovakia, and the United States sold last year, and to whom.

MASS-PRODUCED HOUSES IN REVIEW. *Fortune*, April. The progress of the prefabricated house reported, pictured. Now they can be seen, entered, purchased.

I FOUND NO REVOLUTION IN IOWA. Paul McCrea. *Nation's Business*, April. The state of mind of the farmer in the Middle West is less revolutionary than has sometimes been reported.

REPORTS—SURVEYS

FEDERAL AND STATE TAX SYSTEMS, Jan. 1, 1933. Tax Research Foundation. Commerce Clearing House, 209 pp., $10. Charts and tables depicting the taxing of all the states, the United States, and 38 foreign jurisdictions; includes 40 tables describing the extent and nature of the application of each taxing method by the 48 states, and tabulations of the revenues derived.

UNEMPLOYMENT INSURANCE AND RELIEF IN GERMANY. National Industrial Conference Board, 107 pp., $2. German experience with unemployment insurance and the factors that have led to the collapse of the system; proposals for reform.

INDUSTRIAL PENSION SYSTEMS IN THE UNITED STATES AND CANADA. Murray Webb Latimer. Industrial Relations Counselors, Inc., 2 vol., 1195 pp., $10. Undoubtedly the most comprehensive and authoritative study of all formal pension plans in the United States and Canada. Appraises the growth, cost, methods of financing, legal security, economic significance of existing and defunct plans. Suggests necessity of radical revision of pension programs if complete failure is to be avoided.

BOOKS

VOLUNTARY ALLOTMENT. Edward S. Mead and Bernhard Ostrolenk. University of Pennsylvania Press, 147 pp., $1.50. Story of what has happened to the farmer, how he can be helped; $35 from each city-dweller would put the farmer on his feet, start recovery. How an allotment system would work.

A WAY FORWARD FOR THE WOOL INDUSTRY. Emanuel Kaplan. Business Bourse, 236 pp., $2.50. A proposal for the formation of a National Wool Acceptance Bank to stabilize the woolen and worsted industries.

PERPETUAL PROSPERITY: THE HULL PLAN. George H. Hull, Jr. New Era Publishing Co., New York, 355 pp. A new conception of a cooperative plan for settling depression troubles.

The Business Week

SAFETY VALVE—The electric gasoline cut-off perfected by L. G. Riley, Westinghouse engineer, which brings added safety to airplane operation. At the left is the internal spring plunger which seals the gas line at the tank when the pilot cuts the ignition, stopping the current in the external magnet at the right.

Cities in Debt—and Trouble

There's moratoria talk in even the best municipal circles, but the cities' larger creditors would prefer the benefits of the new Bankruptcy Act.

Now that railroads and banks have received federal aid in coping with their financial problems and farmers are on the point of getting help to write down their mortgages, American cities are asking what about municipal relief. In his capacity of president of the U. S. Conference of Mayors, Mayor Murphy of Detroit recently called at the White House and presented the case of the hard-pressed municipalities. Faced simultaneously with an increasing rate of tax delinquency and a growing demand for relief expenditures, city officials ask immediate action to stave off wholesale default.

Already there have been something like 1,000 defaults. So far these have been confined to the smaller cities, but larger ones, including some of the first ten, are on the brink with more than $1 billion in bonds in their hands. Detroit's case is typical. Approximately 70% of the city's income is required to pay debt charges. This condition exists despite a $28-million reduction in the budget. Tax delinquency is now 40%. A complete breakdown of municipal services would be in the offing if the city continued to pay out for its debts 70¢ on every dollar of revenue collected.

To relieve the situation, 2 general plans are proposed. One is the moratorium method. As usually envisioned, this would involve enactment of an amendment to the federal Bankruptcy Act to permit the federal courts to extend debt moratoria to cities of 50,000 or more having debts in excess of $1 million. Creditors would be allowed full opportunity to protest such debt holidays, which would run for periods of from 2 to 10 years. Creditors would be protected through the imposition of restraints on municipal expenditures, while they were in effect, could ask the courts to lift the ban any time that revenues seemed to be increasing sufficiently to permit resumption of payments.

Organized municipal bondholders—largely insurance companies—are impressed with the plight of the cities but do not like the moratorium method of approach. As a better way out, they have suggested the Fletcher plan, which is an extension of the selective adjustment principle laid down in the new Bankruptcy Act and would give city governments an opportunity to get together with bondholders to make the best possible arrangement, varied to fit the individual case. Thus a refunding agreement plan having the approval of two-thirds of the creditors of a city would be enforceable in the federal courts. As matters are at present, plans of this sort have been held up by a minority of bondholders.

According to Treasury Department figures, municipal and state debts reach the staggering total of $16 billions. The total railroad debt amounts to only $15 billions. Large industrial corporations are not disinterested onlookers in the drama of municipal debt adjustments. Enlightened self-interest has convinced some of them that, as leading taxpayers in many of the industrial cities, they will be liable for special assessments in the event of default.

Banks

A new type of "State Reserve Bank" in the grist of bills.

WHILE the powers in Washington are valiantly laboring to force state banks into the Federal Reserve system, the non-member state banks decline to immolate themselves on the altars of good banking. Revolt is taking the form of providing non-member state banks with discounting facilities by the establishment of a sort of super-state bank by the state itself. In North Dakota a bill is pending to establish the Bank of North Dakota, which is to differ widely from the defunct bank of the Non-Partisan era. A bill has been introduced to establish the Bank of New York. It authorizes $50 million, 2½%, 30-year bonds as capital structure. The deposits are guaranteed. The bank would have power to make loans to cities, counties, and political subdivisions, or to state or national banks. It would have power to act as a clearing house, to fix interest rates, to loan money on mortgages or real property, and to deposit money in other banks.

The bill as drawn in New York State is hastily thrown together, is not likely to pass the expert scrutiny to which it will be subjected. It is, however, an indication of the resistance that is being put up by the state banks which refuse to be forced into the Federal Reserve.

Boost for Cement

Raise in cement prices to raise workers' wages gives industry its chance to get out of the red.

BRASS hats in the cement industry are mostly different from those found in many other similarly important fields. They don't spend most of their time in

luxurious offices at highly polished, carefully cleared-off desks, in soft-upholstered limousines or at super-exclusive clubs. Many of them are shirtsleeve workers who know the business from the ground up, who can boss a cement-making plant, who can talk the language of the men and who every so often brush aside long-winded written reports and get out into the field to see with their own eyes, hear with their own ears how things are going.

Knows His Men

Holger Struckmann, president of the International Cement Company, is one of those hard-working brass hats, who has come up from the ranks and considers it an indispensable part of his job to make periodical swings around the circuit, visit factories and branch offices, see what's doing, and why. One such trip from which he just recently returned has had rather startling consequences. Cement consumption has been at low ebb. Some of the company's plants have been closed down all winter. Employees, depending on what they can earn at the "works," have just existed.

On March 20 four of the International Cement Company's subsidiary Lone Star Cement Companies, announced that on March 25 the price of cement would be advanced 10¢ a barrel and that wage earners (not the salaried employees) would share in the increase to the extent of a 10% increase in their wages. Mr. Struckmann has taken the position that not only at cement plants but everywhere workers must begin to earn real money before business in any line can resume its march toward normal volume and toward a profit.

Others Hopeful

Other companies in the field are gasping for breath. They had not dared to hope for any opportunity to get prices nearer the cost of production than those that were finally established in January as the result of the slow advance beginning in the Mid-West in July, 1932 (*BW—Jan18'33*). Other important officials of large cement companies now concede that there is a chance for constructive action. They cite the fact that, with 1932 consumption down to 30% of the industry's capacity and a price war in progress, every annual statement so far issued by nationally known cement companies shows excessive operating losses. For instance the Alpha, Penn-Dixie, North American and Lehigh Cement Companies, representing approximately 22.4% of the total capacity of the industry, showed an aggregate net loss of $6,458,483 on 1932 operations. Interpreted into barrels this means that each of these companies, if they obtained a proportionate share of available business, lost approximately 35.8¢ per barrel on every barrel of cement they sold during the year.

Russian Fantasy

Wall Street dreams of a triangular trade: Soviet wood pulp to China, Chinese silk to the United States, American copper and cotton to Russia.

IN the inner sanctums of the exclusive clubs where Wall Street financiers meet to lunch, cuss the market, and discuss their own rehabilitation programs, there is evolving a curious kind of hushed unanimity that revival of industrial activity may be brought about, oddly enough, by the route of revived trade with the Soviets. It has not come to an out-and-out cut-and-dried plan, but a scheme is hatching that might make the Soviets customers for large cargoes of American goods. Many factors make this less wild than it appears at first glance.

In the first place, Wall Street capitalists are impressed with the fact that Russia has a stable government—which is not now true of so many other nations. They feel that whatever agreement can be reached with her today is likely to be honored by the dominant Soviet group for some years to come.

A second factor that impresses the realists is the fact that the 5-Year Plan has definitely shown—whatever Soviet propaganda would have the rest of the world believe—that the Soviet government will not be a great industrial competitor for many years to come.

More than that, the alert watchers in Wall Street have also decided that Russian merchandising methods are probably the worst in the world. So, even if she produces any competitive products, they will compete at a discount because of incompetent selling methods.

Copper and Cotton

On the other hand, Russia has non-competitive raw commodities that we could accept either directly or by some triangular trade and which would amply pay for large quantities of cotton and copper that Russia could and would buy at once if a method could be worked out by which payment could be effected. It is estimated that Russia could absorb within the next year 200,000 tons of American copper, possibly 4 million bales of cotton, to say nothing of a large variety of American machinery for construction and for agriculture. Wall Street feels that the effect of such a market on American industry would be instantaneously electrifying.

But how to receive payment for these goods? There's the rub. No country can indefinitely go on making up an unfavorable trade balance abroad by exports of gold. The sharp drop in Russian purchases in the United States to a total of $12 millions in 1932 as against $149 millions in 1929 is evidence that Moscow abandoned the impossible—curtailed purchases or shifted them to countries where Soviet products could be sold.

There remain other ways by which exports to Russia could be financed. One would be by long-term credit extensions to the Soviets; the second, by encouraging imports of goods directly or indirectly from Russia.

Combination Plan

The plans being hatched in the towers overlooking the Battery involve a combination of the 2 plans. The exports of Russia in the order of their importance are furs, lumber products, anthracite coal, and managanese ore. Export of furs and manganese ore can be greatly encouraged by proper trade arrangements with Russia without in any way interfering with any important business enterprise now existing in the United States. So might the export of lumber, but the small group of lumbermen now producing wood pulp here are so vociferous that it is not unlikely Russian imports would call forth fortissimo wails of protest, magnifying these imports out of all proportion to the importance of the lumber industry. Wall Street is not inclined to risk arousing such hostility.

The ingenious scheme that has been devised is that this country help Russia to some kind of a trade agreement with China whereby Russia will sell her lumber products to China which, by the way, is an absorptive market for this material; that the favorable balance thus created in China be used to purchase Chinese silk to be sent to the United States. Then, the silk importers would pay the cotton and copper people for exports of these products to Russia.

The fact that the United States has been in the habit of buying more than 80% of all silk imports from Japan for many years, that the facilities for carrying on this trade are completely set up, and standards carefully established; the fact that Japanese reaction to such a shift of our buying power might hit our Japanese market (for many years one of our 3 or 4 best); and the fact that the Far East in general is an important market for our own timber—all these are obstacles not yet overcome.

Though the scheme appears to have the earmarks of a last orgy before legalized liquor finally appears, sober statisticians are laboring with graphs and tables, realistic financiers are devising credit schemes, and emissaries in Washington are creating atmosphere.

Business Abroad

Major tensions eased; foreigners more disturbed than Germans over Nazi "excesses"; British pleased with apparent success of MacDonald's appeal for peace; France ready to be hopeful; Japan big buyer in world markets.

Europe

EUROPEAN NEWS BUREAU (*Cable*)—Tension which gripped all of Europe for the last few weeks was so obviously eased this week that it would be easy to misinterpret the feeling as optimism. Except for the fact that "war" talk has disappeared, there are few real gains to justify any great degree of hopefulness.

More apprehension has been caused by the political situation in Germany than by conditions in any other one place, but even here the facts scarcely justify the extremes of mass reaction outside Germany. Business and the stock markets in the Reich were the last to react, and the moderate letdown of activity which developed during the week was blamed more on the return flow of criticism than on any real dread of developments at home.

Britain has watched reactions throughout Europe to the efforts of Ramsay MacDonald to restore the prestige of "peace" talk, and has finally decided that he—and Mussolini—have done a good job. Big question mark in the minds of the British (and the Italians) is French reaction. So far, France has refused to commit herself.

Business in Britain continues steady and the tone is good. France cheered up this week, decided that the country had reached the elusive "corner." Germany, after booming for several weeks, slowed down when outside criticism became so loud it unnerved even the Germans. Of course, everyone is hamstrung on foreign trade by restrictions of long standing. If the MacDonald-Mussolini club wins a wide following of members willing to pay the dues, the chances are good that the World Economic Conference—long planned but often postponed—will meet early in the summer.

Germany

Business reacts, more to reports from abroad than to political excesses at home. Steel active for export.

BERLIN (*Cable*)—Germany failed to register the "horrible dread" of the Nazi "anti-Jewish" atrocities which stirred the foreign press and foreign diplomats in Berlin to strong protests this week. Politically, the country is not calm; but it is not so upset as seems to have been pictured abroad.

Nevertheless, the reaction to the reports tempered the enthusiasm which has pushed stock and bond prices to boom levels. Some stocks have reacted only after they had touched prices 300% to 400% higher than the lows of the crisis. Leading 6% bonds have touched par. Reaction which started late last week was due more to profit-taking than to any expressed lack of confidence.

One of the bull factors behind public confidence was the extreme moderation of Chancellor Hitler's speech in which he stressed that there would be no attempt at complete autarchy, no currency experiments, and full recognition of the importance to Germany of a healthy export trade. The domestic offensive against foreign fats continues, however, with local interests eager to make Germany independent of imports.

During the week the German State Railways announced an interesting plan to coax money out of hoarding in the small communities where recent metropolitan optimism has not penetrated. The Railways are offering through their local agents 7% preferred Reichsbahn (State Railways) stock and 6% debentures maturing in September, 1935. These attractive yields are expected to draw out timid marks now hidden in village sugar-bowls.

The steel industry is operating at 30% of capacity (especially on Far Eastern export demand) compared with only 20% late in 1932. Sales of the German Ford company are up in recent weeks. Two Berlin banks increased their dividend rate from 4% to 5%. Sales at the Leipzig trade fair, however, were disappointing. There were extensive displays but few buyers.

Acme

UN SAMSON ALLEMAND—French poster version of the "Hitler menace" to the peace of Europe as established by the Versailles treaty.

France

Parliament handles the budget with greater determination. Government borrows at lower rate. Spreading feeling of hopefulness.

PARIS (*Wireless*)—France has its own way of interpreting the domestic business situation. Often it does not jibe with the appraisal abroad. And France has its own way of doing business, which very often is different from common practice in other countries.

Whatever the appraisal of the French situation in foreign capitals (and there were indications that it was not too favorable this week), the Frenchman was encouraged over the week's developments, intangible as some of them seemed. Compared with a week ago, at any rate, the outlook is more promising.

Budget Pains

Few governments go through greater struggles than the French in arranging their budgets. It is the common thing for the French Parliament, for example, to debate up to the last day of the old fiscal year and then to be forced to hold an all-night session for the sake of voting a provisional 1-month budget to keep the government treasury afloat while the budget discussions continue. Often this continues for several months, particularly in these days of dwindling taxes and mounting deficits.

This week Parliament surprised the public by introducing a bill providing a budget allowance for both April and May. If the public wasn't already aware of it, Parliament informed them that there was likely to be no agreement on an entire year's budget until at least another 2 months of puzzling and arguing can bring some unity of opinion regarding the problem.

France Threatens Monopoly

The present bill, in fact, provides for 9 billion francs for the usual April and May demands and adds another 1 billion francs for general budget expenses. Reform riders tied to the bill, however, are likely to be radically changed before it is passed. One of these riders provides for stricter tax control, another for a 5% reduction in war pensions (except in the case of the incapacitated), while a third rider asks for modification of the retirement age of civil servants. Latin American diplomats in Paris are worried by the proposal to increase the coffee import tax. And Americans are importantly concerned with the proposal to make the oil industry a government monopoly.

There has been considerable criticism of Premier Daladier in Paris this week because of his refusal to open up discussion of French foreign policy in Parliament. His argument is that it would only give rise to further tension at a time when tranquillity is most needed. His opponents argue that the ambiguity of the official French position is causing a worse effect since Germany, England, and Italy all have declared themselves on the question.

The treasury bond issue went across big. Only 3 billion francs were asked; there were bids for 5.12 billions. No part was taken by the banks. The success of the issue has caused an easing of interest rates on 1-month treasury bonds from 2% to 1¾%.

Improvement in business, which has been suspected for several weeks, seemed a bit more concrete this week. At least the feeling that France is due for a certain amount of "recovery news" has spread rather hopefully in the last 10 days. February turnover taxes were larger than those for January. This is the first time in several years that any month's returns have showed a gain. One dark spot in the picture is the drop in wheat prices, which are down 10% this week, and are 35% below the quotations for last year.

"DANGEROUS SHORT FELLOW"—Yosuke Matsuoka, who walked out on the League of Nations, at the Waldorf Astoria. Smoking a British pipe, he gave inquiring reporters a realistic view of the facts of international life.

Great Britain

Tone good despite apprehension over German politics and American finances. British firms get some good orders from abroad.

LONDON (*Cable*)—Britain's business interest this week ran the gamut from apprehension over political developments in Germany to satisfaction over the success of MacDonald's visit to Geneva and Rome. Industries are not thriving but the general business tone is good—better, probably, than in most countries.

As far as the United States is concerned, London is more optimistic than a week ago. The average executive, however, rather anticipates that the States can't avoid more or less serious crises in the fields of railroad financing and in insurance. There is also some question as to whether too many banks have been allowed to reopen. This accounts for the rather cautious attitude of British bankers and traders. There is no fear now of departure from the gold standard. This feeling helped boost gold shares out of the funk into which they dropped soon after the banking holiday had been declared in the United States.

No Longer So Tense

The fact that Britishers discuss their various apprehensions over the German situation with only occasional mention of war indicates the easing of tension this week. A part of this is due to the fact that Ramsay MacDonald is thought to have had better than expected success at Geneva in reviving the peace machinery in Europe. If there is opposition to his 4-power plan, it is more likely to come from France than from any other major power. It is a bit ironical, however, that on the very day and almost at the same hour when Premier MacDonald was addressing the gathering at Geneva, the Minister for the Navy was introducing the naval estimates into the House of Commons and drawing cheers from the House by his insistence that the navy must be maintained because it was one of the "sanctions" on which "bloodthirsty pacifists" must rely in coercing those nations which might dishonor pacts and agreements.

Soviet Justice?

There has been a good deal of excitement all week over the Soviet attitude toward the Britishers who have been arrested in connection with the Metropolitan-Vickers (British) contract with the Soviets. This British company has been operating in Russia on behalf of the Soviet government for 10 years, and in England a charge of sabotage against its employees seems preposterous. It is not, however, the actual charge which is the cause of the concern now felt, but the attitude of the Soviets towards the trial of the accused. The British government is insisting on a "fair and open trial with the right of the accused to have at their side British counsel." The Soviets will not assent to the employment of a British lawyer and little official information can be obtained as to the treatment of 4 of the accused. As a preliminary measure of protest the trade talks with the Soviets have been discontinued.

In keeping with the demand of the

tariff commission that the iron and steel industry rationalize if it is to continue to have government tariff protection, a provisional merger has been arranged between Dorman, Long & Co. and the South Durham Steel & Iron Co., which together dominate the steel industry on the northeast coast. The combined assets of the 2 companies exceed £24 millions. It is known that the merger was hurried along by the financial difficulties into which the Dorman, Long company had fallen.

Among the equipment orders which have been placed with British industries recently, the £6,000 order from Alexandria (Egypt) for harbor electrification, the £120,000 aircraft order which the Turkish government has placed with the Vickers-Armstrong company, and the £5,000 Argentine boiler order placed with the same company, along with the £300,000 training ship order from Brazil are important. Brazil has also ordered an entire Diesel electric express train for the São Paulo Railway.

Far East

Japan continues to be active buyer in world markets. China celebrates beginning of new trade pact with Soviet Union.

JAPANESE buying continues to be an important factor on world markets. This week there was the announcement that Tokyo was taking 300 tons of nickel for coinage purposes. At present about 20% of Japan's small coins are made of nickel. The new purchase of raw nickel is to convert the whole of this coinage to a nickel basis.

Rubber takings for January and February have just been announced, show that Japan was second only to the United States in the volume of rubber bought on world markets. A part of this rubber is thought to be for the rubber-soled shoe industry, which last year supplied two-thirds of the entire international market in that product.

Active Japanese Buying

Large purchases of scrap iron from Australia and heavy buying of American copper attracted some attention. Especially the American market is alert for orders which may possibly be placed here by Mr. Matsuoka. French, Dutch, and British companies are supposed to have received large orders from this traveling official following his departure from Geneva and before he sailed for New York.

Meanwhile, silk—Japan's major export—is in no greater demand than for many months. Silk officials in the Orient are responsible for the opening of an office in New York recently for the sole purpose of gathering information concerning the American silk market and evolving plans for the exploitation of silk. Though the Japanese have made rapid strides in cultivating a rayon industry which is competing favorably with European and American interests, vast numbers of Japanese are still dependent on the silk industry for their living. Any recovery of the demand for raw silk would at once react favorably on Japanese buying power.

Chinese merchants gathered at the river front in Shanghai recently to celebrate the departure of the first shipload of Chinese tea consigned to the Soviet Union under the terms of the new trade treaty between the 2 countries. More than 4,000 tons of tea, valued at about $1 million, were included in the first shipment. China is taking Soviet oil and timber in return business.

There were no developments in the Orient during the week seriously changing the business outlook. Both China and Japan continue to be fair markets for aggressive exporters.

Acme

RECEPTION COMMITTEE—New York Chinese stage a demonstration for Mr. Matsuoka as he arrives to explain Japan's position to Americans. Hard-eyed, imperturbable, the banners were wasted on him.

Latin America

Cuba contemplates moratorium on foreign indebtedness; Washington protests to Chile on nitrate deal; Colombian payments temporarily delayed.

THERE are no significant changes in the economic situation in Latin America this week, but the general tone is less favorable than a week ago.

The clamor in Cuba for a 2-year moratorium on all foreign debts has been revived. With the financial situation there increasingly less favorable, it seems likely that the moratorium will be decreed before long. Bankers are not sanguine over the immediate future.

Washington has taken a hand in the Cosach (nitrate) affair in Chile. When the Chilean Finance Minister announced plans to reduce the share each foreign country holds in the industry, American interests urged government protests. The outlook for amicable settlement of the problem of the Chilean nitrate trust is less favorable than it was earlier in the winter.

Colombia Lacks Dollars

There were definite reports from Bogotá this week that Colombia is having difficulty finding sufficient dollar exchange to cover all bills coming due just now. This is due largely to the fact that Colombian exports during this season are small and insufficient foreign exchange had been built up to carry the country through this slack export season. American exporters are warned that this is only a temporary matter, and that there is no intention to restrict payments abroad.

Reports have been received from Montevideo during the week that recent rumors that Uruguay was on the verge of a revolution were greatly exaggerated, and that politically the country is calm.

The Figures of the Week

Business records begin to show some signs of recovery from the severe blow of the bank holiday. Steel activity lags, but public construction, electric power production and carloadings look better. Outstanding currency has dropped sharply. Commodity prices fluctuated narrowly.

BUSINESS is just beginning to realize what a blow the bank holiday and its subsequent events have been. Instead of coping with a series of bank difficulties in widely scattered areas, business faced a large dose of difficulty at one fell swoop. The retarding effect of closed or restricted bank facilities throughout the country was inevitable. The chief relieving chaser of such bitter medicine is the hope that a similar purging of our banking set-up may never recur.

The Detroit and Cleveland districts are making valiant attempts to recover the footing lost in the past few weeks. The newly established National Bank of Detroit opened its doors Friday, Mar. 25, to receive deposits from a number of important commercial concerns. The acting president of the new organization is James McEvoy, chief of the legal staff of General Motors.

Motor production is being resumed on a careful basis with even the two concerns which were recently placed in "friendly" receivership reopening for a moderate amount of activity. Unless there is a marked reversal in the general business situation, a poorer season than was first anticipated will face the automobile industry, and eventually the steel industry, its chief beneficiary. March output is thought by some to run close to the depression low of last October, when only 51,625 vehicles left the factories in the United States and Canada. February sales from 34 states indicate a 10% decline in passenger cars from the January level.

The stimulus to steel from the return of legal beer is fraught with confusing expectations. On the one hand, *Steel* anticipates that some $360 millions will be needed within the year to rehabilitate the beer industry with new machinery, equipment, buildings, refrigerators, cases, bottles, trucks, kegs and the rest. *Steel* quotes August A. Busch, president of Anheuser-Busch, Inc., of St. Louis: "It will take $5 millions to equip us to make the same amount of beer we were making before prohibition. We will begin at once to spend that amount." But so far the steel industry has felt but a small proportion of such business.

Structural Steel

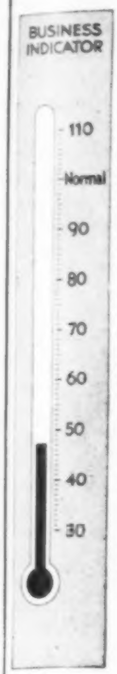
Structural steel awards totaled 13,100 tons, according to *Iron Age*, the best tonnage of the month. What the future will bring in the line of governmental support remains to be seen, but the outlook grows stronger that some kind of stimulus will be attempted before the year is out.

Railroad buying continues to be only the most necessitous. The present discussion of establishing a dictator for the railroads throws little light on whether equipment buying will be loosened up or not. February income returns of the first 57 roads reporting show a 54.5% drop in net income from a year ago. This compares with an 11.7% gain for January.

U. S. Steel announced a 10% cut in working time and salaries for all salaried employees beginning Apr. 1. This makes the third reduction for the "white collar" group since August, 1931. Wage earners have suffered two reductions

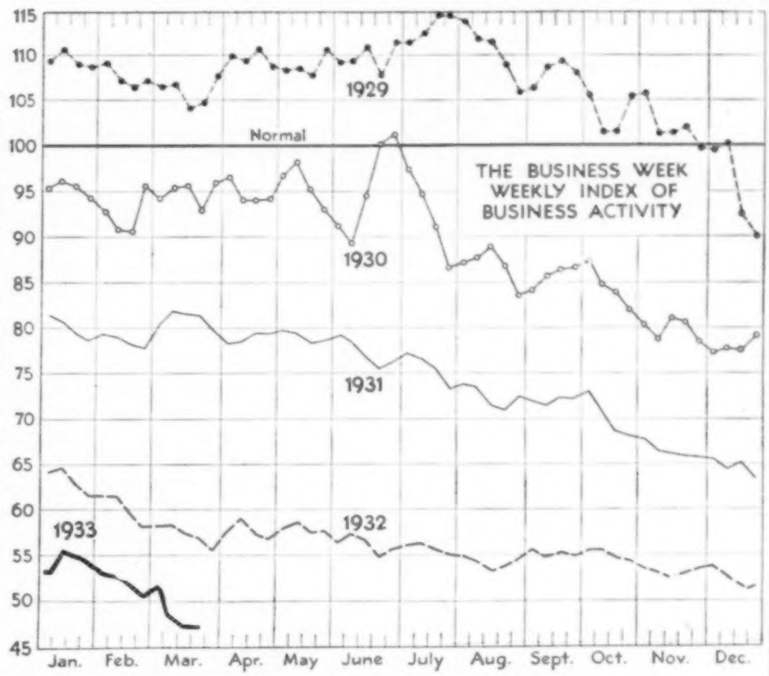
THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	Latest Week	Preceding Week	Year Ago	Five-Year Average (1928-1932)
Business Activity	*47.5	†47.4	56.9	
PRODUCTION				
Steel Ingot Operation (% of capacity)	14	15	24	66
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$2,138	$2,330	$3,609	$13,974
Bituminous Coal (daily average, 1,000 tons)	*860	†920	1,290	1,440
Electric Power (millions K. W. H.)	1,410	1,375	1,515	1,624
TRADE				
Total Carloadings (daily average, 1,000 cars)	75	73	97	137
Miscellaneous and L. C. L. Carloadings (daily average, 1,000 cars)	50	49	63	92
Check Payments (outside N. Y. City, millions)	§	§	$2,927	$5,162
Money in Circulation (daily average, millions)	$6,643	$7,260	$5,498	$4,797
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.49	$.50	$.47	$.95
Cotton (middling, New York, lb.)	$.064	$.065	$.064	$.148
Iron and Steel (STEEL composite, ton)	$28.35	$28.35	$29.81	$33.73
Copper (electrolytic, f.o.b. refinery, lb.)	$.048	$.052	$.058	$.141
All Commodities (Fisher's Index, 1926 = 100)	56.6	56.1	63.1	85.2
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$2,931	$3,476	$1,599	$1,249
Total Loans and Investments, Federal Reserve reporting member banks (millions)	§	§	$19,403	$21,820
Commercial Loans, Federal Reserve reporting member banks (millions)	§	§	$6,917	$8,309
Security Loans, Federal Reserve reporting member banks (millions)	§	§	$5,337	$6,985
Brokers' Loans, New York Federal Reserve reporting member banks (millions)	$398	$388	$524	$3,169
Stock Prices (average 100 stocks, Herald-Tribune)	$83.07	$84.08	$88.95	$147.05
Bond Prices (Dow, Jones, average 40 bonds)	$75.55	$76.23	$79.53	$93.07
Interest Rates — Call Loans (daily average, renewal)	3.1%	4.8%	2.5%	4%
Interest Rates — Prime Commercial Paper (4-6 months)	3-3½%	4-4½%	3½-3¾%	4%
Business Failures (Dun & Bradstreet, number)	393	382	628	549

*Preliminary †Revised §Not reported



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



since September, 1931. Discussions of further cuts in wage scales have been in the air for several months, but denials of intent to reduce wage scales have often been made. Since the leading mills are operating at but 15% of capacity with staggered staffs, the weekly pay envelope has long been pretty thin.

Construction Awards

Public construction showed some improvement during the third week of March, thereby bettering the picture of the preceding weeks. But the volume is far below the usual seasonal expansion that characterizes March. Undoubtedly the tying up of funds in banks during and since the bank holiday has had a deterrent effect on the construction industry.

Total awards through Mar. 22 aggregate slightly more than $39 millions, a drop of 14.3% from the February daily average and 50.6% below a year ago. Non-residential construction still leads in volume with a total of $15.3 millions, but this group suffered the most severe decline from the preceding month, amounting to over 25%.

Public works and utility awards reached $13.8 millions, thereby narrowing the spread from the February rate to 7.2%, compared with a spread of 26.4% for the first half of March.

Residential construction continues to fill third place with contracts valued at $9.9 millions, but it has had the distinction of holding closer to the February level than other groups. By the end of the third week of March, residential activity lagged only 2.4% behind the preceding month. Since March is a considerably longer month than February with its two holidays, this group, at least, ought to exceed the February volume.

The Middle West is making the best showing in construction this month, many of the territories having already exceeded their February totals. The $800-million federal building program scheduled for 1933 has apparently been held up, at least temporarily. Guesses ventured include the possibility that some of the funds may fall to the reforestation program now being considered at Washington, though opposition from cities expecting new federal buildings will undoubtedly be strong.

Coal Industry

Hard and soft coal production during the week ending Mar. 18 declined, largely as a result of milder weather. February production of both coals exceeded January, a rare phenomenon for most years.

The organization of the recently approved selling agency, Appalachian Coals, Inc., is progressing rapidly, officers having been selected and headquarters established at Cincinnati, Ohio.

Electric power production reveals a gratifying recovery during the week ending Mar. 25, after pursuing a depressing downward course for the month of March that was greater than seasonal. Apparently the industrial load is getting back to the pre-bank-holiday level. The improvement is most noticeable in the central industrial and Atlantic seaboard regions.

Carloadings for the week ending Mar. 18 also indicate a slow recovery from the early weeks of March, and returns of a number of roads for the following week of Mar. 25 indicate that a further improvement may be expected.

The roads have rejected the pooling arrangement of surcharges whereby the 15% increase in freight rates enabled a fund to be established for the relief of roads in less prosperous conditions. In the meantime, grain, lumber and coal shippers are working for rate reductions.

Records of check volume and commercial loans are still not reported. With reorganizations, mergers and eliminations of many banks, the problem of continuing these series on a comparable basis presents numerous difficulties.

Postal Savings

Postal savings at the close of February passed the billion dollar mark for the first time, though the gain of $63 millions was said to be less than officials expected. The March figures will be awaited with even greater interest.

Currency circulation declined sharply during the week ending Mar. 25, making a return of $890 millions to the banks in 2 weeks. But from the first week of January to the peak reached during the week Mar. 11, the average volume of currency outstanding increased $1,864 millions.

Commodity prices have fluctuated narrowly in the past 10 days. The nonferrous metal markets suffered a general decline, while grain markets made a slight recovery.

The Financial Markets

Federal Reserve figures reveal continued impressive recovery in banking situation. Dollars continue in demand on foreign exchanges. Stocks and bonds flounder indecisively in a perplexed market.

Money

FOREIGN currencies doff their hats to the impressive recovery of the American financial markets. The Federal Reserve statements tell the story in their records of returning gold, reduced borrowings, rising reserves, and steady declines in the total of money in circulation. Their sober figures indicate that, whatever its consequences to business and industry, the banking crisis is over. And the dollar still holds a commanding position in all foreign exchanges.

To be sure, the low pre-holiday money rates have not been re-established. Call loans on the Stock Exchange were commanding 3% as March drew to a close. Time loans were selling for $3\frac{1}{2}$% and prime commercial paper was going at around 3%. Prime bankers' acceptances stood at $2\frac{3}{8}$%.

It is not improbable that the retention of higher rates of interest has much to do with the strength of the dollar. When the official call loan rate on the Stock Exchange hung for months at 1% per annum, when demand loans on security collateral were obtainable at $\frac{1}{2}$%, when bankers' acceptances were quoted at $\frac{1}{4}$%, there was no incentive for foreign banks to keep their deposits here. The outflow of gold during January and February had its source in fear for the dollar, according to Wall Street, but it is also possible that it represented a flight from the dollar because the dollar was not profitable, because interest rates here were too low in comparison with corresponding rates in Europe.

Impressive confirmation of this view comes from the fact that as soor as rates went up in Wall Street, following the bank holiday, large amounts of gold which had been earmarked for foreign account were promptly released and bank balances of foreign banks were re-established.

Of course Wall Street argues that, in large measure, the strength of the dollar is the consequence of speculators' being caught short. Ingenious methods have been devised to show that it will take many weeks to complete the process of short covering. While this may be true, it may also be expected that if interest rates remain at about present levels there may be a return of foreign capital to the United States. The influx of capital will also bring with it a new volume of gold.

This is not an unmixed blessing. The movement of capital from one country to another in response to periodic frights and the mob psychology of investors has disturbing effects upon trade and commerce. Countries having exchange restrictions can, of course, regulate the flow of capital back and forth.

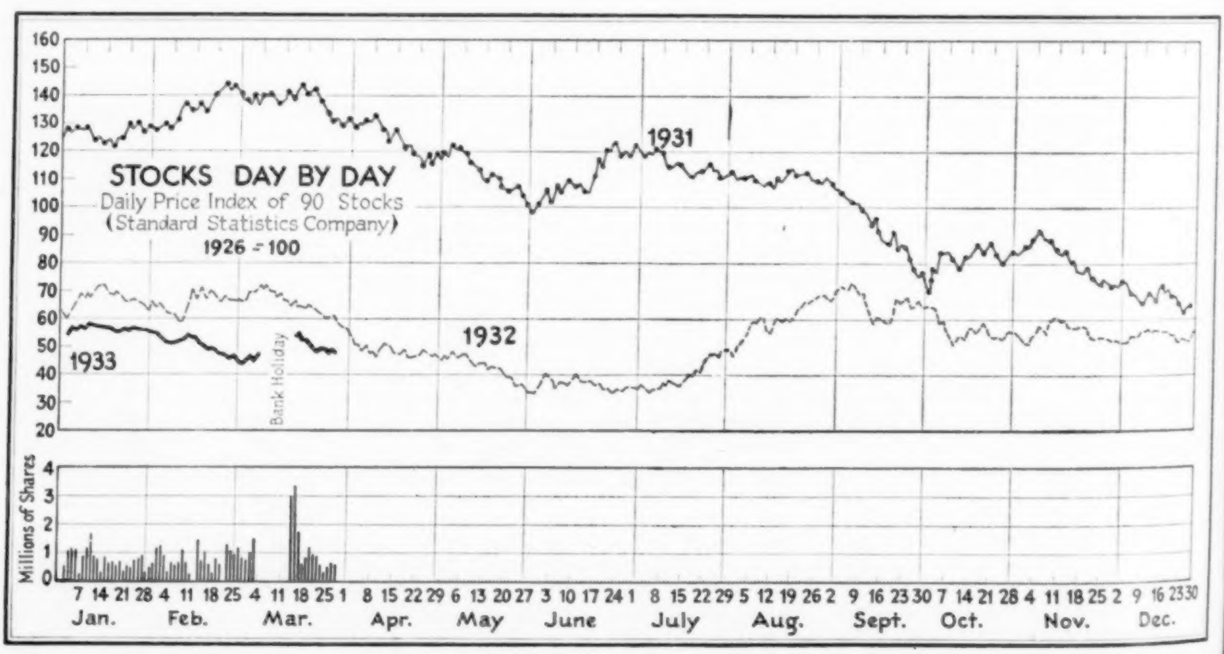
It is perhaps just as well that Secretary Wallace calls attention to the fact that there is considerable sentiment in Washington for the reduction of the gold content of the dollar. If this does no other good, at least it may sufficiently disturb foreign investors to prevent them from rushing to the United States again with their liquid funds.

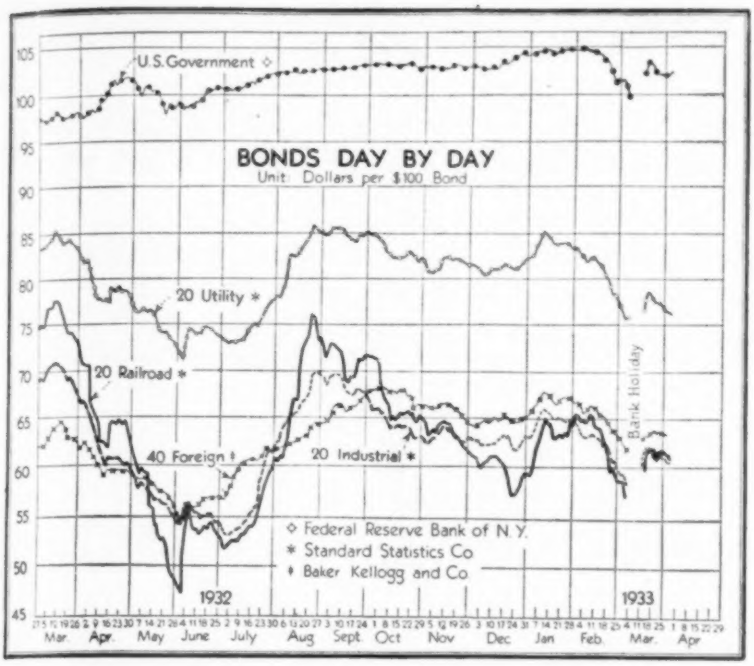
Bonds

BOND prices, which did not seem to know whether they ought to go up or down and for a short period went in both directions, have now drifted off sidewise. Government bonds are uncertainly upward.

The imminence of new long-term government financing makes bondholders hesitant. The probability is that the government will try to provide funds for its ambitious relief employment plan and for refunding maturing obligations by appealing directly to the public with baby bonds. Such a program would draw money out of hoarding, and relieve the banks from buying Treasury obligations, thereby releasing their funds for other purposes.

The popularity of the present Administration makes it entirely probable that a popular marketing program of baby bonds would succeed. On the other hand, the general bond outlook is not prepossessing. Railroad earnings are again falling off sharply. How much grief there is ahead in connection with real estate bonds nobody dares to esti-





mate. Finally, as the policies of the Administration develop, it is increasingly evident that, while there is talk of inflation, actually all the programs thus far adopted are deflationary.

The continuous discharge of government employees, which is going on relentlessly all over the country, the steady increase in general unemployment, the constant erosion of purchasing power, and the threat of deflationary developments in the way of mortgage and debt reduction are making all bondholders chary of the future.

The absence of figures of reporting member banks has had the effect of substituting rumors for facts. From the fragmentary information available it may be estimated that the banks still closed have locked up about $5 billions of deposits. On the basis of what happened in banks closed during 1932, about 25% of this total may be looked upon as lost to depositors. This would bring the final loss on deposits now frozen to about $1,250 billions.

Stocks

The stock market is floundering irresolutely. After spurting up to new highs for two months immediately after the bank holiday, prices meandered off in the general direction of the South Pole, and then all of a sudden bethought themselves and turned about.

Stocks turned up to keep company with the ascending wheat prices, the wheat market in turn being buoyed up by reports of severe crop deterioration in Southwestern wheat country. The outlook is for a yield possibly as much as 40% or 50% below the 1932 winter crop, which was itself well below the average. The extent of the damage may have been exaggerated, but the estimates have made the market sensitive. The advance in cotton prices also helped stocks.

Another influence on the market is the play of conflicting emotions with regard to Administration policies. The economy, bank, and beer bills are orthodox enough and have received grunts of approval. But the market does not know whether to cheer or weep when it reads the farm bill. This is something out of its ken. It is even less certain when it examines the proposed farm debt program. The announcement of the President's proposals for stricter supervision of the admission of securities has left many an investment banking brother with a sinking heart—which is not buoyed up particularly by the news that Washington favors further rigid investigation of what happened in the palmy days before the crash—days that most stock speculators have good reason to regret in more ways than one.

The February report of 57 railroads makes cheerless reading. It shows a net operating income of the $8 millions against $17.5 millions in February of last year, a drop of 54.5% (of 65.2% from February, 1931). Compared with $10.3 millions in January, February income is off 11.7%. Some roads do show a larger February net this year; 16 got into the hopeful list, 4 by reducing deficits. But it was a smaller list than that of January, when 30 roads did better than in 1932.

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The Journal of Business News and Interpretation
APRIL 5, 1933

Tariffs

No sounder way to attack deflation and start recovery could be devised than to lower the barriers to international trade.

Tariffs are a form of warfare. The Peace of Versailles brought an end to the war of the trenches, but it was the signal for the outbreak of an economic war no less bitter, no less expensive.

Our tariff of 1930 launched a major offensive. It has been defended, and sometimes with a certain plausibility, but the weight of evidence is too strong; we stand convicted of aggression. Thirty-six nations protested its provisions before it was passed. Coldly objective studies indicate that it was directly responsible for one-third of the billion-dollar drop in foreign trade which occurred from October, 1930, to October, 1931.

Experience is a great schoolmaster, and the depression has been a great experience. We have learned some economic fundamentals. We know, now, that foreign trade is in essence barter. We sell only as much as we are willing to buy—unless we are willing to sell goods on tick, and it seems to be agreed we are through with that.

President Roosevelt, asking Congress for authority to negotiate reciprocal tariff concessions, is proceeding along thoroughly sound lines. Foreign trade in the future is going to be highly specialized and individualized. Blanket tariffs do not fit that kind of an economy; if they ever were appropriate, it was in a simpler age.

But how far the President will get is problematical. He runs grave political risks; they may stop him quickly. For the tariff, as the old truism goes, is a local issue. The prime obstacle to a policy of concessions on individual schedules is the natural reluctance of any industry to be sacrificed in order to open a foreign market for some other American industry, no matter if the national gain is a hundred times its loss. We might dicker to admit a certain amount of cutlery in return for broad new markets for cotton—but only over the dead body of the American cutlery manufacturer and his Congressman.

President Roosevelt must have power to cut loose from Congress, therefore, if his policy is to be applied on an effective scale.

Other difficulties sometimes suggested are not insuperable. The most-favored-nation treaties to which the United States has committed itself since 1922 are no serious obstacle. While it is true that all most-favored-nations theoretically get advantage of any concession without reciprocating, the fact is of no practical importance. The products on which reductions might be made are highly specialized. If we should negotiate for a wider automobile market in Italy in return for lower tariffs on spaghetti, the lower duties on spaghetti could be automatically extended to Honduras, Haiti, Peru, Argentina, and Latvia without serious complications.

Nor is it likely the slick foreigners will outsmart our diplomats in the trading. Actually, the bargaining will be left to technical experts who know their onions, and their chemicals, as well as any foreigner. Ambassadors and their highly decorative staffs will merely go through the prescribed formal rites.

It is the political and not the technical or legal aspects of launching a reciprocal tariff policy that will make trouble for the President. If Congress will permit him only to negotiate, reserving to itself the right to ratify, not much will get done. If Congress is willing, it can give the executive powers broad enough to cover all practical needs.

But not even a willing Congress can shield him or itself from the resentment of special interests tariff concessions are bound to hurt.

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